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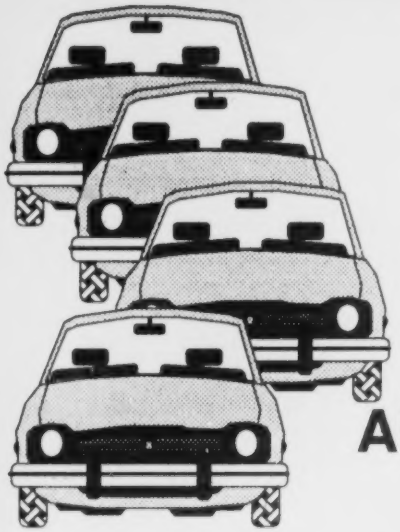

CBA

CONSUMER BANKERS
ASSOCIATION

1990
AUTOMOBILE FINANCE STUDY

An Analysis of the December 1989 Survey

Conducted by the

Center for Financial
Services Studies
McIntire School of Commerce
University of Virginia

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The Consumer Bankers Association

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 800 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

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CBA serves as a spokesman on consumer banking issues, including automobile financing, home equity lending, bank cards, funds availability, EFT, deposit products, student lending and related legislation. The association provides its members with effective, pro-active federal government relations activities, innovative and specialized conferences and educational programs and publications.

In 1980, CBA organized a Consumer Leasing Committee which developed an industry-wide annual conference, an annual survey, and monitored national legislation and regulation. In 1985 the committee's purpose was expanded to include consumer lending and dealer wholesale financing. Today's committee plans an annual spring conference which is one of the largest CBA-sponsored educational events. In addition, the committee, working with the University of Virginia's Center for Financial Services Studies, conducts an annual survey of trends in consumer leasing and lending, and dealer financing.

CBA thanks the members of the Automobile Finance Committee for their continuing commitment and service to the industry.

1989-1990
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For over forty years, the McIntire School of Commerce has co-sponsored numerious joint programs with financial organizations and major associations in the financial services industry. Recently, the scope of the School's close relationship with the industry has been greatly expanded. As a result, the Center for Financial Services Studies has been established in an effort to consolidate the School's activities in this area and to make the faculty's expertise more readily available for service to the industry.

The Mission of the Center is to ...

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...encourage an exchange of ideas among financial industry leaders, faculty, and students through a continuing series of lectures, seminars, and workshops; and

...sponsor and coordinate education programs for the financial services industry.

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INTRODUCTION

The 1989 Automobile Leasing and Financing Survey was distributed to over 600 Consumer Bankers Association member institutions, including commercial banks, thrifts, and credit unions. The response rate this year showed a substantial decrease to 135 respondents, from 176 in 1988. Conversations with CBA Executive Board members at the 1990 CBA Auto Finance Convention in Denver would suggest that the primary reason for this decrease is due to consolidation in the banking industry. There is another possibility, however, as only four of this year's responding institutions reported losses in 1989. It is possible that some institutions that did not perform well chose not to participate in this year's survey.

While reading this report and examining the graphics, there are several issues to keep in mind. First, the numbers that are presented are averages for the item being discussed. In cases where extreme deviations from the average existed, those responses were deleted from the analysis to provide the most representative results. Second, the response rate varied greatly from question to question, and even within different parts of the same questions, and some questions permitted more than one response. For these reasons, in some cases totals do not add up to exactly 100% and numbers may vary slightly in different sections of the report. This is not an error, but is a reflection of the data as collected. Third, when conducting a survey it is always best, but not always possible, to have a random sample to ensure a normal distribution of responses. While this report may not be representative of the total U.S. automobile financing market, it accurately reflects the responses of CBA participants.

Several new items were included this year, some were modified slightly and some were deleted. Most of the changes have resulted in more accurate and useful responses. Throughout this report, an effort has been made to highlight meaningful differences that may exist across institution size and region. The survey results will again be broken down by geographic region where regional differences exist. Rather than using institution assets as the measure of size this year, the size dimension will utilize a measure of portfolio size for each of the leasing, lending, and floorplanning sections, where size differences exist. When examining responses that generated few significant differences, only overall results will be discussed in the text.

Background

As expected, sales of autos were down in 1989, reflecting higher automotive prices and consumer saturation after several years of increased sales. Prices increased an average of $430 for the Big 3 automakers, partially because of the cost involved in new, mandatory passive restraints. Total automobile sales numbered 10.1 million, a decline of 6%, while truck sales numbered almost 5 million.[1] Profits for domestic automakers also dropped, especially in the fourth quarter, because of slowed sales and increased costs of rebates. Overseas profits boosted the bottom line, but automakers could not rely on their captive finance arms for the usual profitable performance as returns dropped because of increased borrowing costs and a high number of questionable loans.[2]

Ford was the only one of the Big 3 to increase market share, to 22%, though the Japanese, selling over one million "transplants," increased their share to 26% of the American market. GM slid to 35%, and Chrysler fell to hold only 10.3% of the market.[3] The top three selling cars were, in order, the Honda Accord, the Ford Taurus, and the Ford Escort.[4]

At their World Congress, automakers reiterated their concerns--diminishing market share, escalating product costs, and renewed regulatory pressures. The group called for the government to support policies that will allow the industry to employ plentiful, low-cost sources of funds. The president of the UAW called for the U.S. government to enact measures to limit Japanese imports and stressed job security for autoworkers in the coming decade.[5]

Captive finance arms realized the concerns developing in the auto market and tried to create ways to buffer the decreased returns. GMAC has begun to offer marine and mortgage financing, resulting in assets doubled to $91.3 billion. Their insurance arm contributed 15% of revenues, while mortgage revenues were less than 1% of earnings. Chrysler is specializing in commercial leasing and lending to large industrial and service companies and major electric utilities. Ford is involved in financing and insurance, however earnings have dropped because of the reduced spread between borrowed and loaned funds.[6]

On the banking side, commercial banks controlled the auto finance market in 1989, maintaining 43% of total auto loans--a 2% increase over 1988, and the first increase of market share since the 1984 figure of 48%. The Big 3 captive finance arms managed 33% of the market, while credit unions and thrifts maintained 17% and 7% of market share, respectively.[7]

Demographic Data

In this year's survey, respondents were asked to provide information about where they conducted auto finance business. When organizations selected more than one region, they were categorized by the location of their corporate headquarters. The geographic breakdown is presented below in Table 1:

Table 1

Geographic Background

West (W)	AK, AZ, CA, CO, HI, ID, MT, MN, NV, OR, UT, WA, WY
Midwest (MW)	IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI, WV
Northeast (NE)	CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT
South (S)	AL, AR, DC, FL, GA, LA, MS, NC, OK, SC, TN, TX, VA

The Northeast region generated the greatest number of responses. Table 2 presents respondents by institution asset size and geographic location:

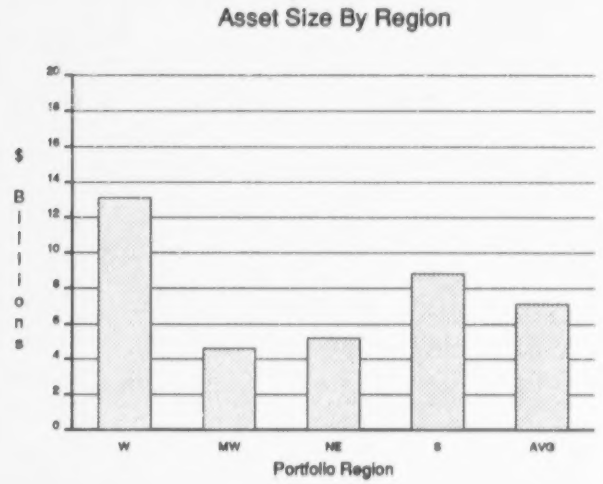
Table 2

Respondent Asset Size and Location

Region	Under $1B	$1B-5B	Over $5B	Total
West	6	6	9	21
Midwest	12	10	13	35
Northeast	10	22	13	45
South	7	12	15	34
Total	35	50	50	135

Of those responding, 26% were from institutions with assets of less that $1 Billion, 37% have assets between $1 Billion and $5 Billion, and 37% have assets in excess of $5 Billion. This year there was an increase in participation by the larger institutions. Table 3 graphically presents respondents by asset size:

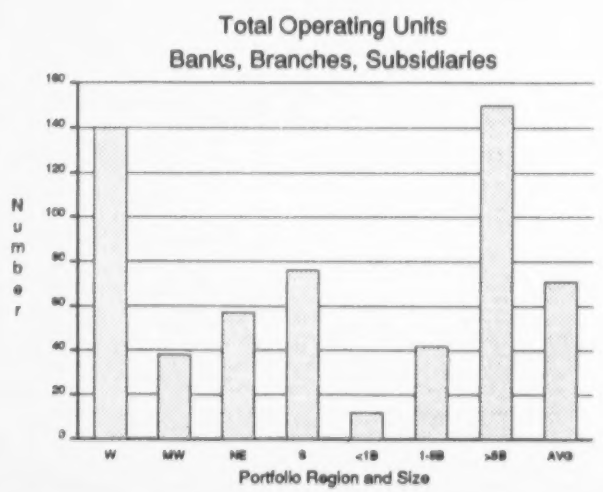
Table 3



As in 1988, respondents from the Western region had the highest average assets at $13.1 Billion, while the Midwest had the lowest at $4.6 Billion. The overall average was $7.1 Billion, compared to $7.7 in 1988.

Another measure of institution size is the number of total operating units, including all banks, branches, and subsidiary units, presented in Table 4:

Table 4

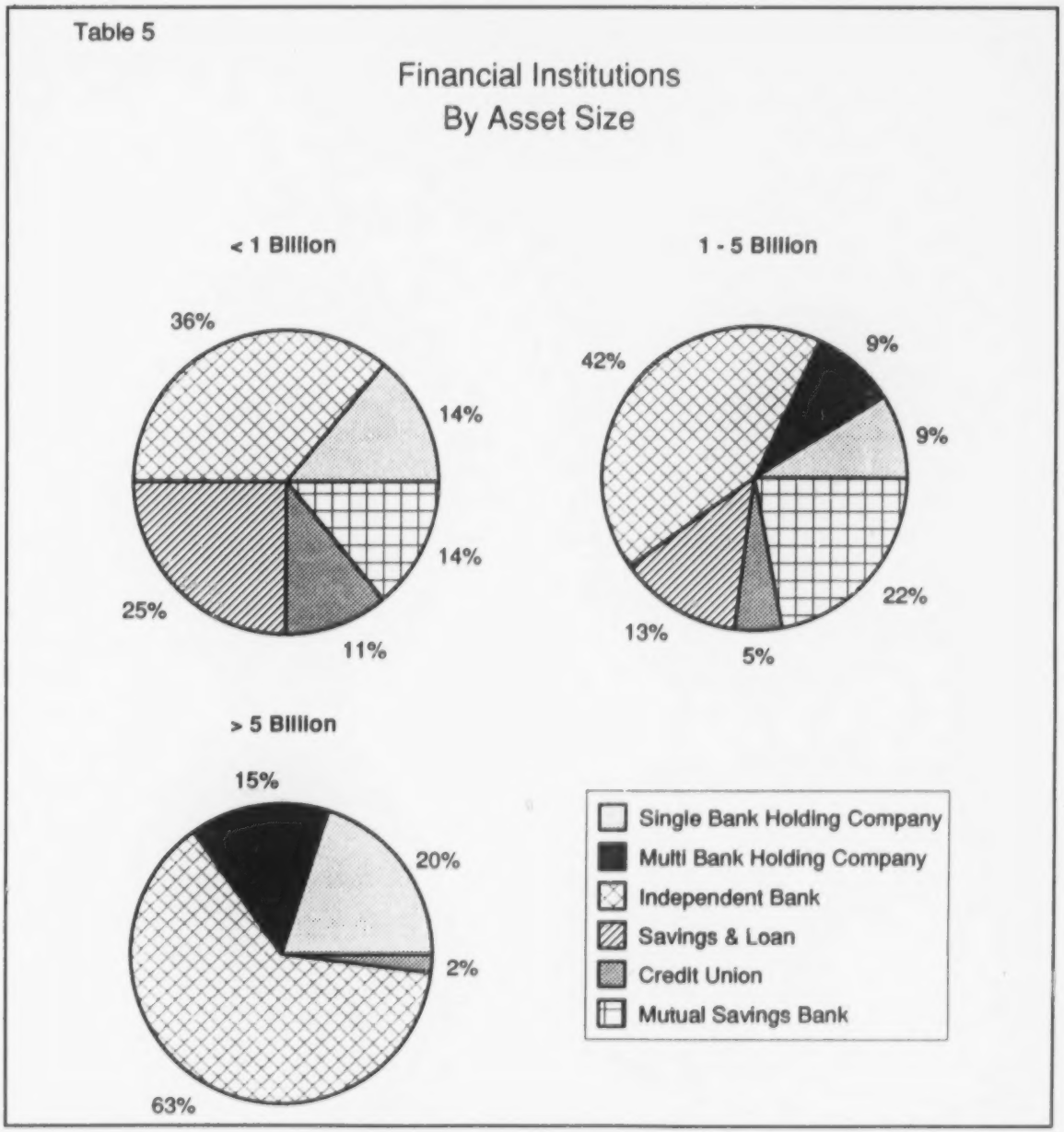


The average number of units is 71, compared with 67 in 1988. The strong relationship between asset size and number of units is apparent.

There were six types of financial institutions represented in the sample, and these demonstrated major differences across institution asset size, as presented in Table 5:

Table 5

Financial Institutions
By Asset Size

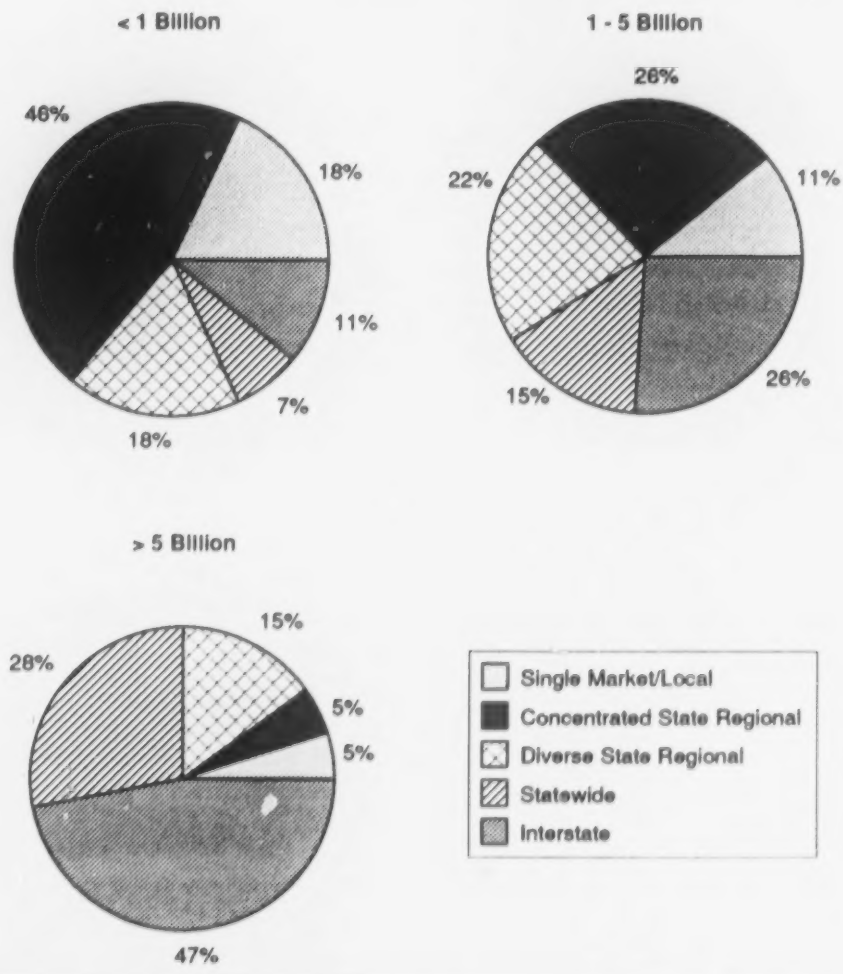


For the smaller institutions, the majority of the population was comprised of independent banks and savings and loans. Only medium sized institutions were represented by all six types of institutions, with independent banks making up 42% of the sample. Institutions with assets in excess of $5 Billion demonstrated similar characteristics, with 63% independent banks. There was a definite reduction in responses from holding companies in 1989.

The geographic distribution of automobile financing business varied considerably by asset size and is presented in Table 6:

Table 6

Financial Institutions
By Geographic Distribution

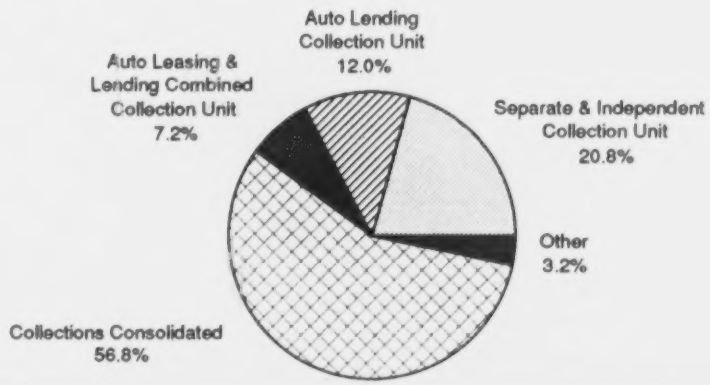


The vast majority of smaller institutions were concentrated state regional, while medium size institutions were more evenly distributed. The larger institutions tended to have statewide or interstate operations.

The collection activity may have an impact on cash flow and the overall profitability of the organizations. There was a large variety in the way the collection function is structured, as shown in Table 7:

Table 7

Collection Activity



The majority of organizations consolidate auto collections with other consumer collections. As in 1988, this year's survey included performance measures, specifically return on assets and return on equity, which are presented for overall institution performance in Tables 8 and 9:

Table 8

Return on Assets

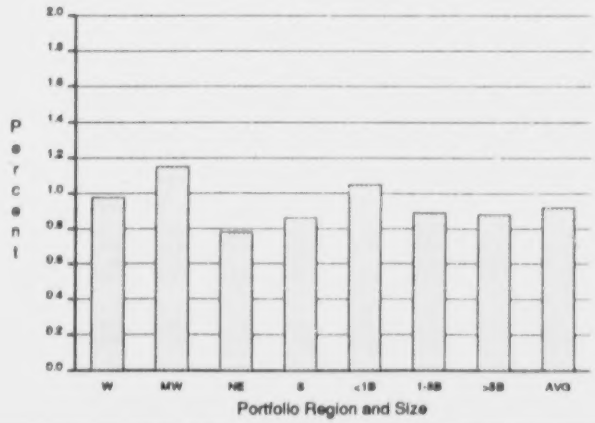
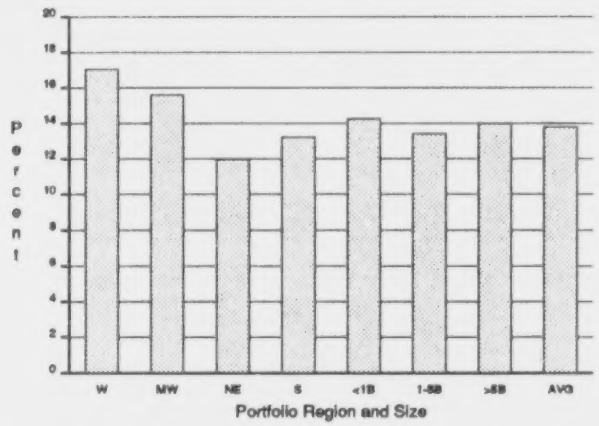


Table 9

Return on Equity



The overall average ROA was .92%, and varied from a high of 1.15% in the Midwest to a low of .78% in the Northeast. The overall average ROE was 13.81%, with a high of 17.05% in the West and a low of 11.96% in the Northeast.

This year, respondents were also asked to provide these measures for the leasing, lending, and floorplanning functions, the results of which are presented in Tables 10 and 11:

Table 10

Return on Assets

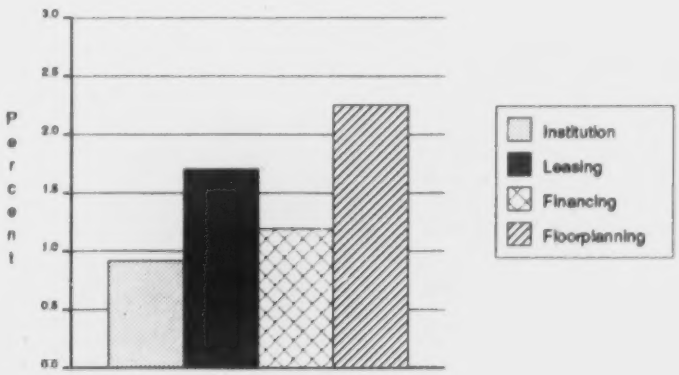
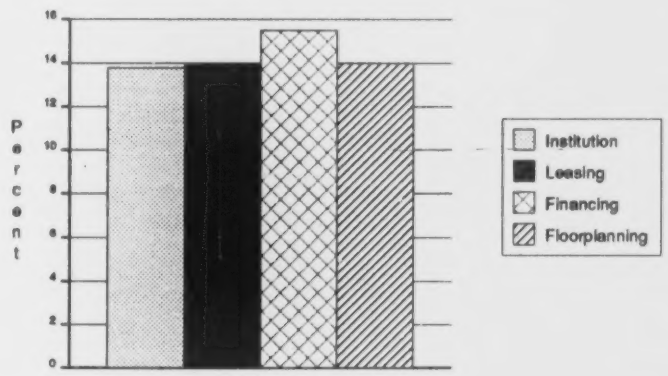


Table 11

Return on Equity



Floorplanning operations provided the greatest average ROA 2.25%, while financing provided the greatest ROE at 15.5%. All automobile financing related functions did better than the overall institution averages.

The following sections include a discussion of leasing, lending, and floorplanning, respectively. The information is provided to enable meaningful comparisons to be made between your associates and competitors. Where important trends appear to be emerging, they will be highlighted in the text and/or a graphic illustration.

AUTOMOBILE LEASING

A major driving force in the growth of automobile leasing results from the Tax Reform Act of 1986, thus leasing is becoming more and more attractive to both individuals and businesses. For individuals, elimination of the interest deduction makes leasing more attractive, and a lease allows the lessee to minimize out of pocket expenses and incur lower monthly payments when compared to conventional auto financing. For businesses, leasing offers an alternative that frees up essential cash flow. By leasing, companies do not place a rapidly depreciating asset on their balance sheet. No down payment is required, and the cost of the lease can be fully deducted if the car is only used for business.[8]

As leasing popularity has grown, there have been concerns raised about some unethical practices taking place within the industry. Sales and management staffs may be uneducated about the process and actually generate lease contracts based on deceptive information.[9] Several states have taken legislative action against sub-leasing, and are closely examining disclosure practices.

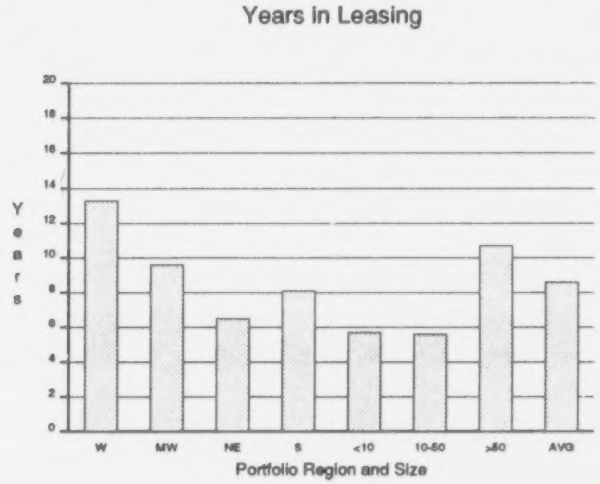
The captive finance companies altered their leasing programs during 1989, focusing on lower-cost, shorter-term leases which allow consumers to have a number of new cars throughout the contract with maintenance costs included throughout the term. Several of the more expensive import manufacturers are leasing more vehicles than they are selling, and growth in leasing at the upper end of the market continues to outpace overall industry growth.

Leases accounted for a total of 1.5 million vehicles in 1989, an increase from 1.3 million in 1988. As automobile prices continue to increase, it is expected that leasing will continue to become more popular. Growth is expected to remain at a 1-2% per year growth rate increase for the rest of the century.[10] Much of this growth will come at the expense of conventional financing.

Leasing

Although the total number of survey respondents offering leasing declined from 80 in 1988 to 61 in 1989, the overall percentage of total respondents offering leasing remained almost exactly the same at 45%. Table 12 provides a graphic illustration of the distribution of institutions offering leasing by the number of years in the business:

Table 12

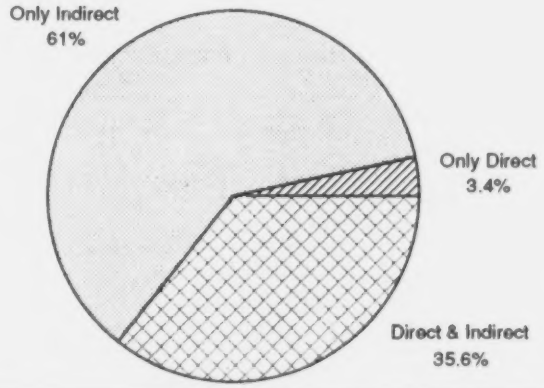


Respondents from the Western region and larger institutions have offered leasing for the greatest length of time at 13 years. Less than one-third of respondents have been involved with leasing for more than ten years, and almost 40% of respondents have offered leasing for less than 5 years. The overall average is 8.5 years. As demand for leasing increases it is anticipated that the number of banks participating in leasing will also increase. New forms of organizations offering leasing are also being developed through joint ventures and lease brokers. It is expected that as leasing becomes more popular the leasing industry will become even more competitive.

Table 13 on the following page illustrates that the vast majority of responding institutions offered indirect leasing, as only 3.4% offered just direct leasing. Due to most institutions' heavy reliance on indirect activity, dealer relationships should be of vital interest to lessors.

Table 13

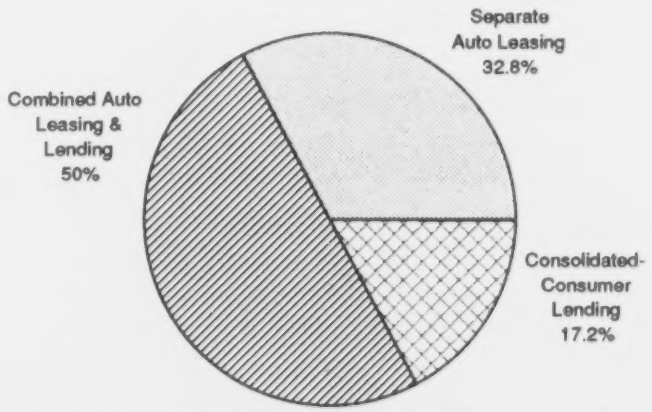
Leasing Arrangements



There are a variety of ways that financial institutions involved with leasing are organized, as shown in Table 14:

Table 14

Operation of Leasing Department

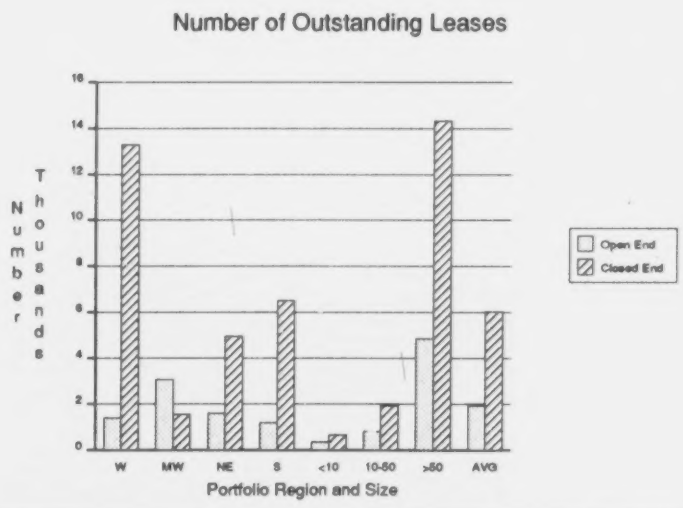


Similarly to 1988, approximately one-third of responding organizations have a separate leasing department, half combine leasing with lending, and 17.2% consolidate these functions into consumer lending.

Lease Portfolio

As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. In order to use a particular item to divide the sample, it must be reflective of the size of the lease portfolio, and have a very high response rate to maximize the number of institutions that can be included in the analyses. As in 1988, the measure used was the total closed-end lease contract receivables, due to the high frequency of responses to this item. An attempt was made to divide the sample approximately into thirds, and also to identify naturally occuring break points in the average portfolio. As a result, the cutoff points were at $10 Million and $50 Million, with the smaller (< $10 million) portfolios comprising 26% of the sample, the medium sized ($10-$50 million) portfolios 39%, and the larger (> $50 million) portfolios 35%. Open-end leases were offered by only 35% of respondents. Table 15 presents average number of vehicles in the lease portfolio by region and institution size:

Table 15

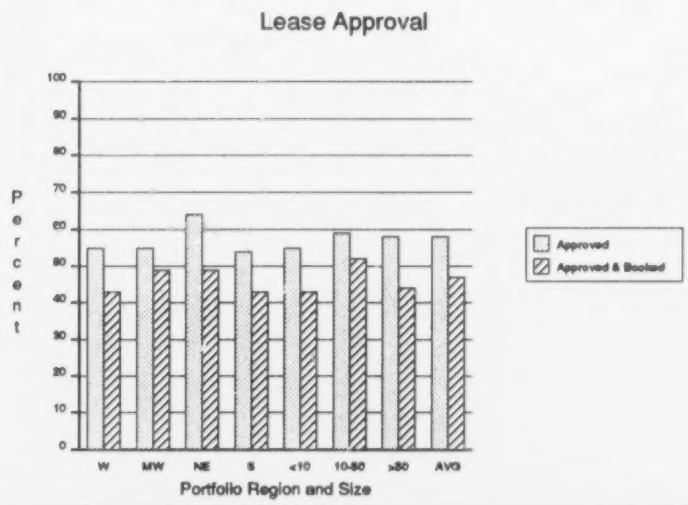


The average open-end lease portfolio was approximately 1/3 as large as the average closed-end portfolio, at 1917 and 6049 vehicles, respectively. There were significant differences across regions, with respondents from the Western and Southern regions having the largest total portfolios at 14,689 and 7,691, respectively. The Midwest was the only region reporting open-end lease portfolios that were larger than closed-end.

Lease Approval

In 1989 the average lease approval rate was 58%, a decrease from the 62% approval rate of 1988, while the percentage of leases booked dropped from 50% to 47%. The average lease approval rate, as well as the percentage of leases booked is presented in Table 16:

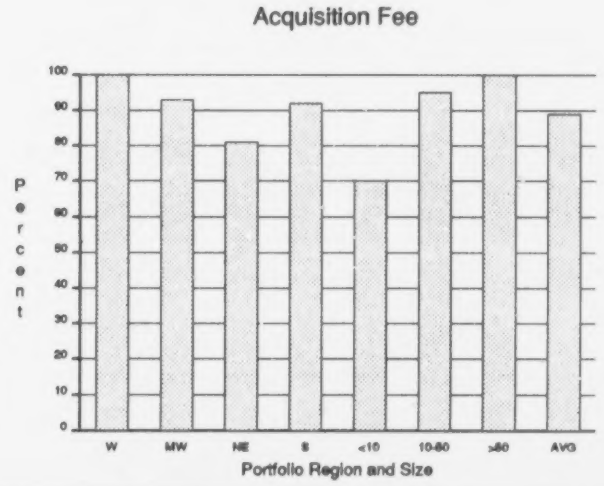
Table 16



Lease approval rate varied little across region and portfolio size, although it does appear as if the smaller institutions were slightly more successful at booking approved leases. The Northeast had the greatest percentage of leases accepted and booked again in 1989, at 64% and 49%, respectively. Although the overall average of leases booked declined slightly in 1989, those institutions in the Midwest that had recorded a booking rate of only 36% in 1988 reported a booking rate of 49% in 1989. An analysis of the acceptance and booking rates and the volume of applications from various dealerships could be conducted to enable management to identify those for whom an organization is a primary lessor.

The use of a lease acquisition fee increased again in 1989 to 89% from 73% of respondents in 1988 and 40% in 1987. There were some regional and size differences in the utilization of this fee, as shown in Table 17:

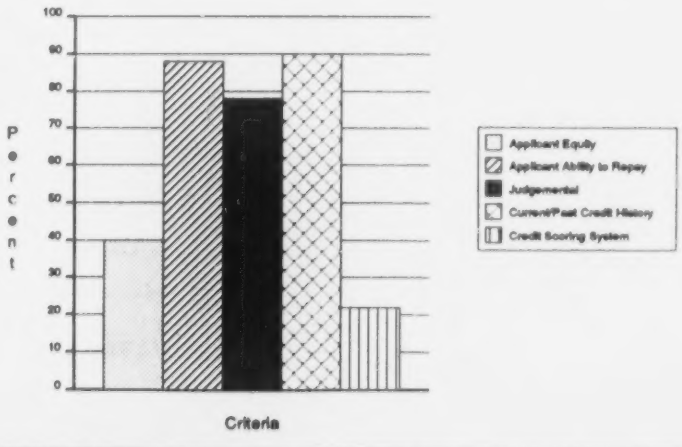
Table 17



Once again, all of the respondents from the West charged a lease acquisition fee. The greatest increase was shown in the Midwest, where 93% of respondents reported charging a fee in 1989, compared to 53% in 1988. A flat fee was most commonly used and averaged $238, with a range from $50 to $400. A security deposit of one month's rent was charged by 98% of total respondents.

This year's survey asked respondents to report the criteria that they were currently utilizing for lease approval decisions. There were few regional or size differences, and most institutions reported using multiple criteria. Table 18 reports the results of this question:

Table 18

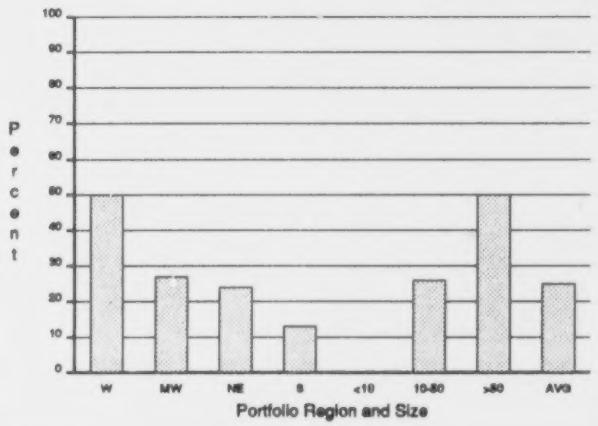


Applicant ability to repay and current/past credit history were the most commonly reported criteria, while credit scoring was reported least frequently.

The use of an automated credit processing system varied considerably across size and region, with an overall average of 25%. Half of the larger institutions and those in the West utilized automated credit processing, while none of the institutions with portfolios of less that $10 million and only 13% of those in the South used it. Table 19 illustrates the distribution:

Table 19

Automated Credit Processing



Of those using an automated credit processing system, questions were asked on this year's survey regarding specifics about the credit processing system. Table 20 reports the results for the overall sample:

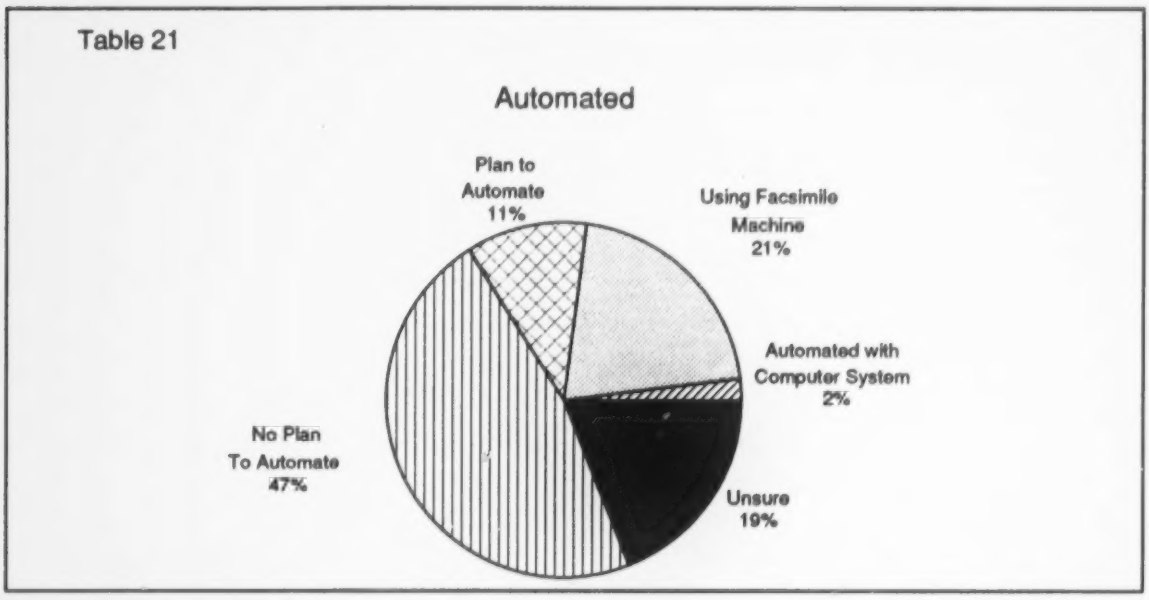
Table 20

Credit Processing System

2%	Computer Link with Dealers
100%	Automated Credit Bureau Interface
64%	Credit Scoring
50%	Queuing
25%	Document Preparation
81%	Letter Preparation
38%	Collections Interface
56%	Mainframe Interface

All respondents reported having an automated credit bureau interface, while only 2% have a direct computer link with dealers. The degree to which respondents were automated or planned to automate their relationships with dealers was also assessed and is reflected in Table 21:

Table 21



The use of the facsimile machine continues to increase, but almost half of the respondents apparently plan on continuing to use the telephone as their primary means of interacting with dealers. The average processing time from application to lease approval was also requested in this year's survey, and the results are presented in Tables 22 and 23:

Table 22

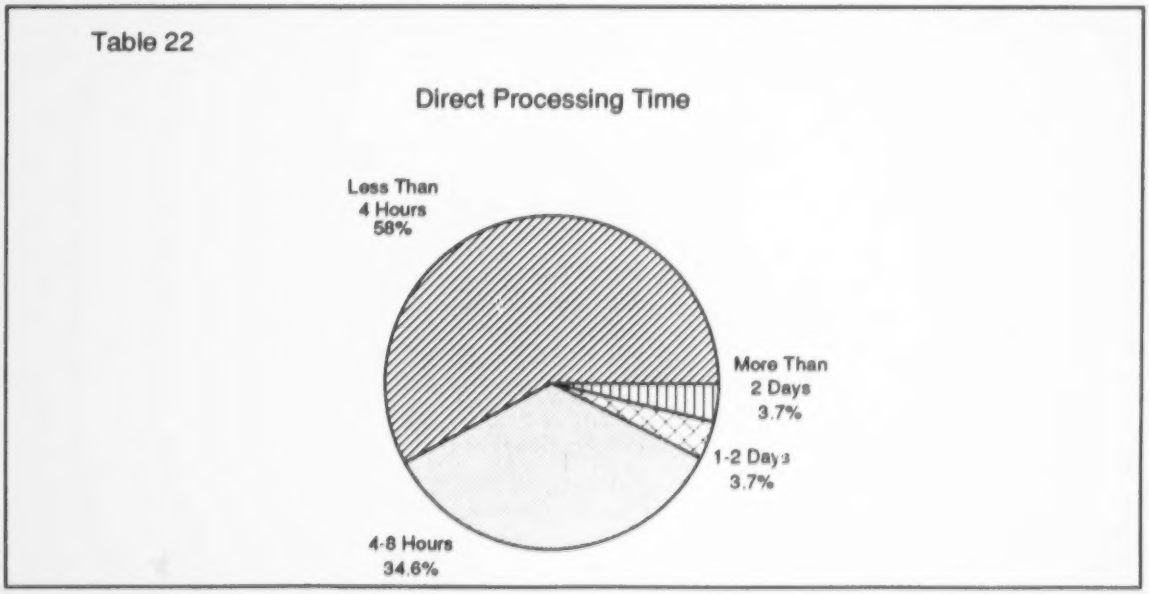
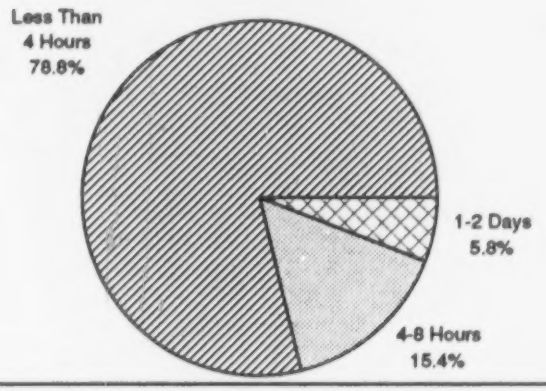


Table 23

Indirect Processing Time

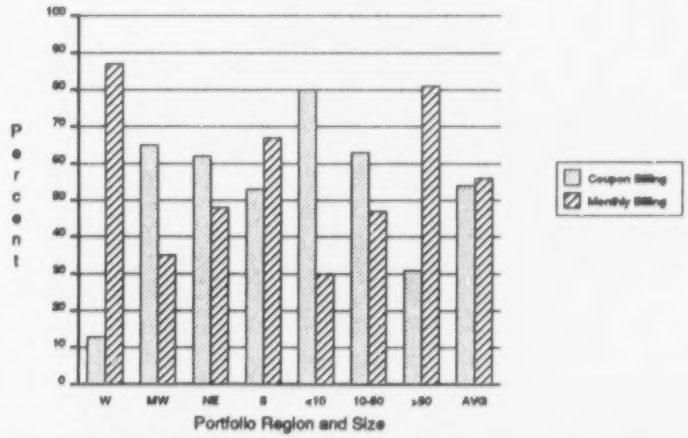


Almost 80% of respondents process indirect leases in less than 4 hours, while less than 60% match that time for direct loans.

There are two primary billing methods used by respondents: coupon books and monthly billing. Table 24 reports methods used by responding institutions:

Table 24

Billing Method

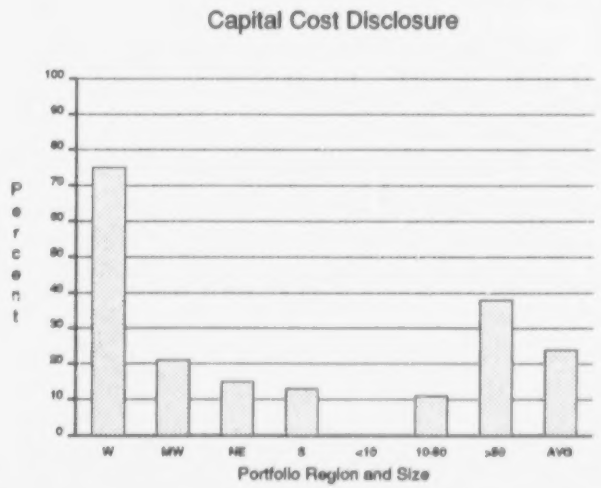


There were substantial regional and size differences in billing methods, and many respondents reported using both methods. Use of monthly billing was most common in the West, and least frequently used in the Midwest. Institutions with smaller portfolios made much greater use of coupon billing than their larger counterparts.

Capital Cost

Disclosure requirements are an emerging consumer issue in most areas of consumer financing. In 1987 37% of respondents disclosed the capital costs of their leases, and that figure rose to 40% in 1988. In 1989, however, that figure declined to 24%. There existed substantial regional differences in disclosure practices, as illustrated by Table 25:

Table 25



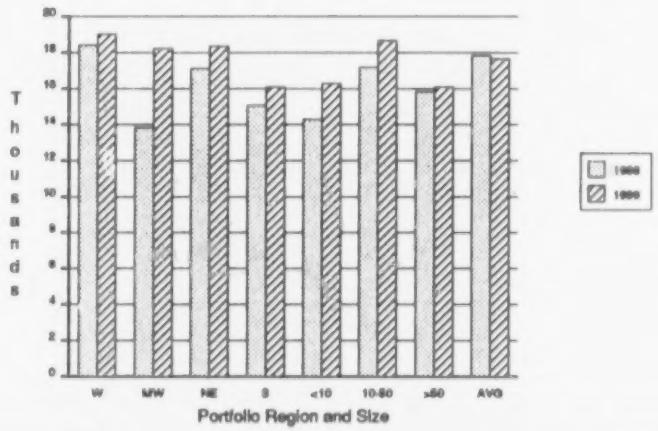
The percentage of institutions disclosing capital costs ranged from a low of 13% in the South to a high of 75% in the West, the only region that reported an increase in disclosure, from 66% in 1988.

The average maximum capitalized cost as a percentage of manufacturer's suggested retail price was 106% for domestic vehicles, and 107% for imports, with a range from 100% to 120%. The average actual captitalized cost was 98% and 100%, respectively, with 12.3% of total leases booked having a capital cost reduction.

One clear trend that has emerged over the last several years has been the continuous increase in the capital cost of the average car lease. Since the Tax Reform Act of 1986, leasing appears to be becoming a more attractive financing alternative, particularly for the more affluent customer. This year, however, the overall average capital cost did not increase, and Table 26 presents average capital cost by size and region for 1988 and 1989:

Table 26

Capitalized Cost

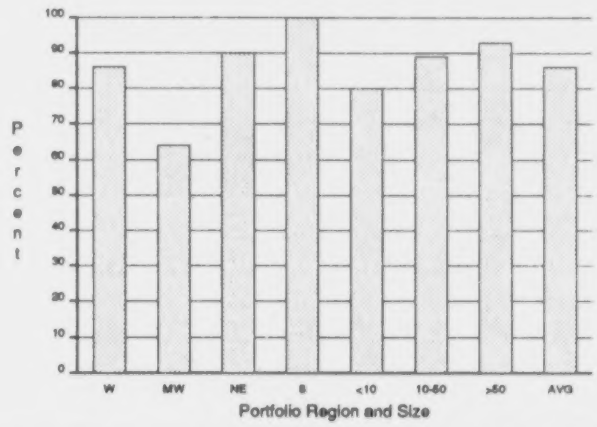


The capital cost of the average closed-end lease decreased slightly to $17,643 from $17,836 reported in 1988. Regionally, the West had a 1989 average in excess of $18,400 with the greatest increase shown in the Midwest, from an average of just under $14,000 to approximately $18,000.

Most financial institutions offer the capitalization of fees and taxes to reduce out of pocket expenses for the lessee. The percentages of institutions capitalizing the various fees and taxes are presented in Table 27:

Table 27

Capitalization of Fees



Overall, 86% of respondents utilize fee capitalization, but the practice varies by region, from a low of 64% in the Midwest to a high of 100% in the South.

The fees and taxes are capitalized at various rates by region and portfolio size, as shown in Tables 28 to 32:

Table 28

Capitalized License Fees

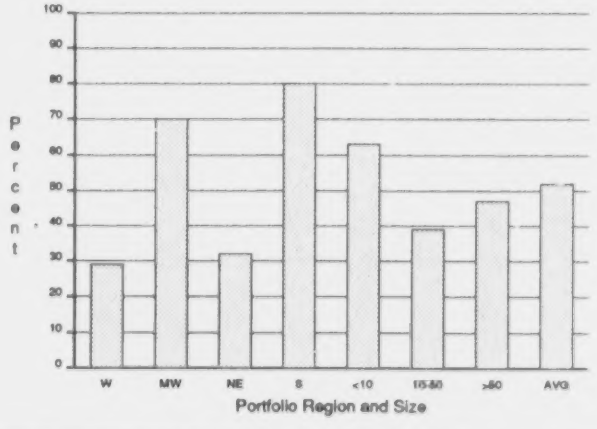


Table 29

Capitalized Personal Property Tax

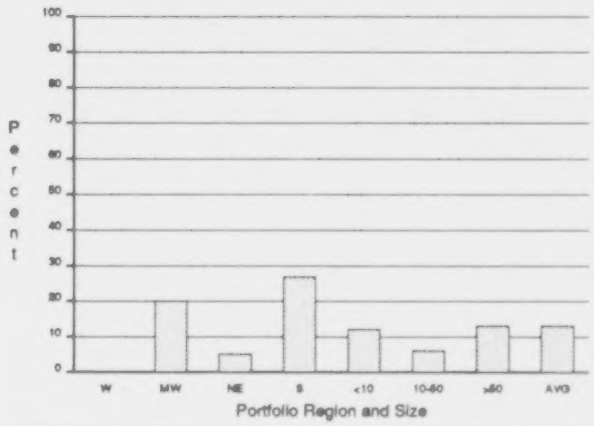


Table 30

Capitalized Registration Fee

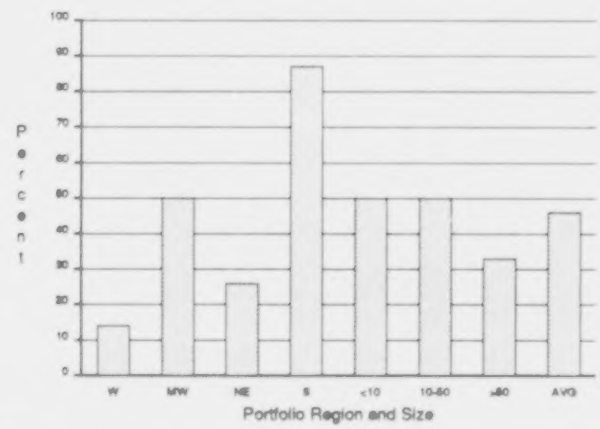


Table 31

Capitalized Sales Tax

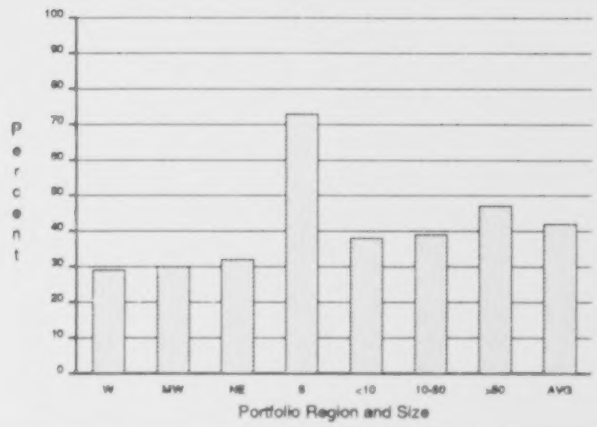
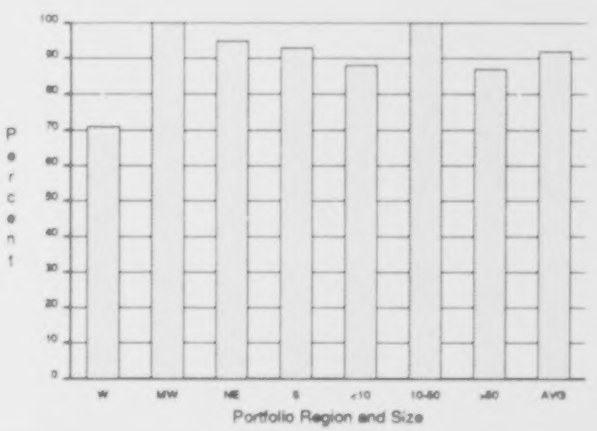


Table 32

Capitalized Warranty Packages



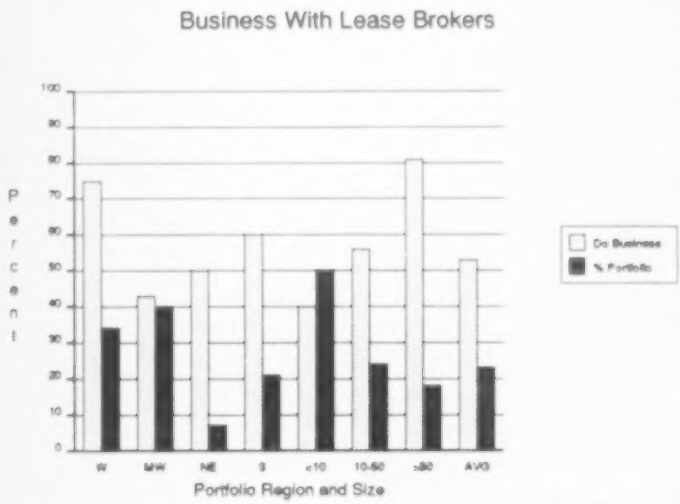
Institutions in the Western region tend to use capitalization less frequently than those in the rest of the country, while Southern institutions appear to make the most common use of capitalization of fees and taxes. Warranty packages are the items most frequently capitalized, reported by 92% of respondents. Some of the differences in these practices may reflect organizational policy or legal statutes specific to a given state or region.

Leasing Activity

As in 1988, the overall lease market in the United States once again grew by approximately 200,000 units in 1989, to 1.5 million vehicles.

There are three basic sources of lease business for the financial institution: auto dealerships, lease brokers, and direct to the consumer. Ninety-seven percent of respondents conduct indirect business with dealerships, but the percentage that do business with lease brokers varies considerably by region and size, as shown in Table 33:

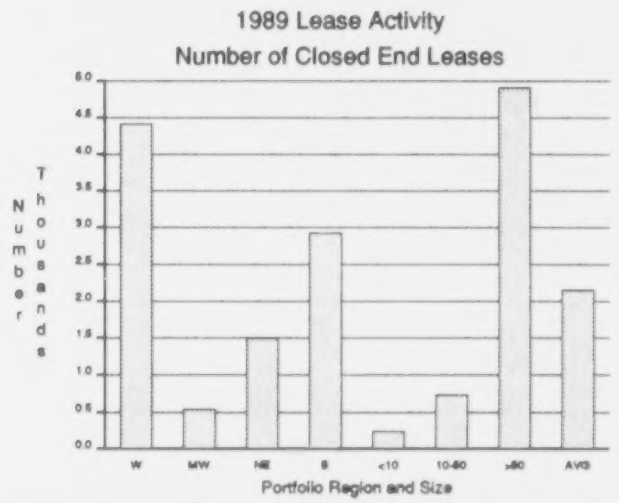
Table 33



The majority of respondents from the Western and Southern regions reported doing business with lease brokers, and the overall average was 53%. The percentage of the portfolio that was leased through a broker varied substantially by region, from a high of 40% in the Midwest to a low of 7% in the Northeast. There were also apparent size effects, as institutions with smaller portfolios tended to do a much larger portion of their business with lease brokers.

With institutions continually entering the leasing business, the reporting of average lease activity can be somewhat misleading, so the following table should be interpreted with caution. Only closed-end data will be reported, due to low response rates for open-end leases. Table 34 presents a profile of average lease activity for 1989 in the number of vehicles:

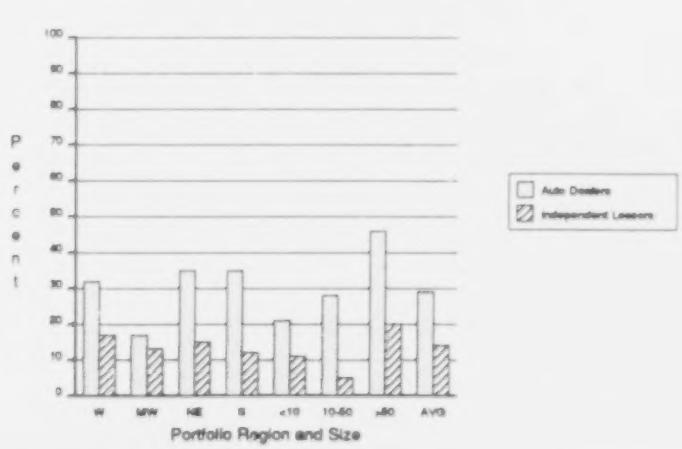
Table 34



There has been a slight reduction from 1988 in the average number of closed-end leases, from 2625 to 2150, which may reflect a bias due to new entrants that have smaller portfolios. Regionally, Western institutions had the greatest average number of leases, with 4411.

Although the majority of institutions conduct indirect activity with a large number of dealers, respondents were asked from how many sources they regularly purchased indirect paper. Table 35 presents the breakdown of this activity by region and portfolio size:

Table 35



Overall, respondents regularly purchased indirect paper from an average of 29 auto dealers, with a high of 35 in the Northeast and South and a low of 17 in the Midwest. Portfolio size was directly related to the number of auto dealers from which an institution bought indirect paper, but the responses would suggest that lessors do the bulk of their business with a relatively small number of dealers. Respondents also purchased indirect paper from independent lessors, with an average of 14, and little variance across regions.

Residual Value

As is highlighted in Table 36, the vast majority of respondents set residual values by using ALG, Black Book, Kelley, or similar publications, and 16% of leases had residual values above guide book limits:

Table 36

Method of Setting RES Values

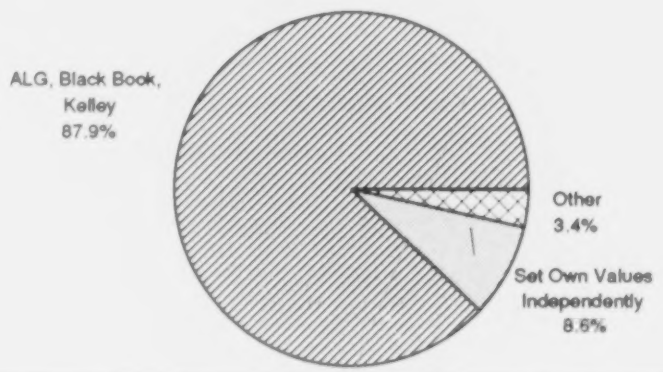
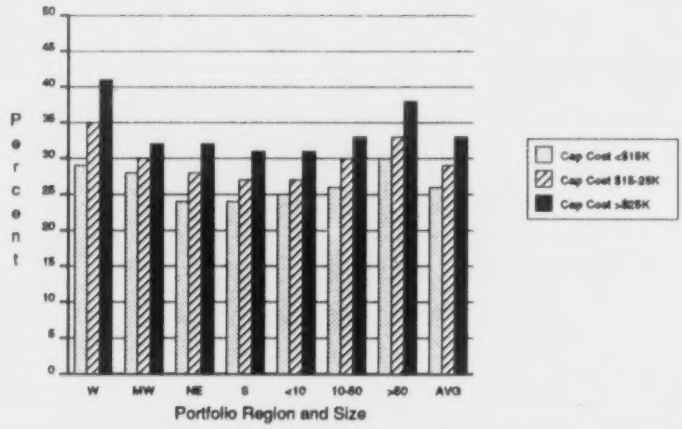


Table 37 presents the average residual value as a percentage of MSRP for vehicles in three different price ranges:

Table 37

60 Month Lease Residual Value

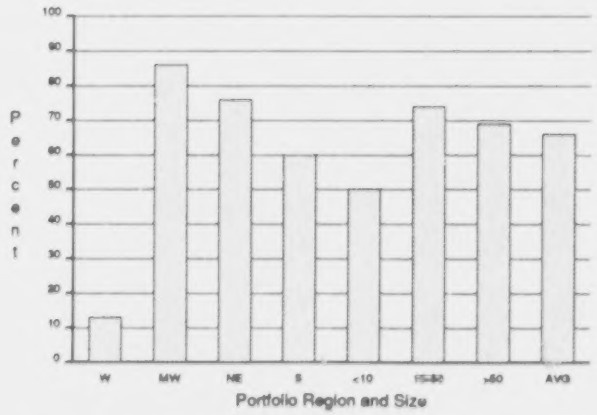


Vehicles with a capital cost of less than $15,000 had an overall average residual value of 26% (of MSRP), while vehicles valued between $15,000 and $25,000 averaged 29% and vehicles over $25,000 averaged 33%. Institutions in the Western region and those with the larger portfolios appeared to be somewhat less conservative in predicting residual values. Overall average residual value for the entire portfolio was 31% of MSRP.

There was considerable variance in use of residual value insurance, as shown in Table 38:

Table 38

Residual Value Insurance

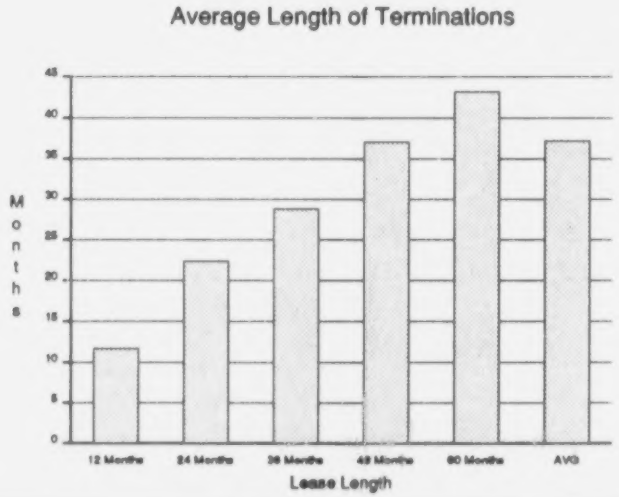


Overall, 66% of respondents insured residual value, and 20% of those purchased residual value insurance with deductibles. Respondents from the Western region were much less likely to purchase residual value insurance than those from other regions of the country. The average premium per lease was 1.65% of the residual value. For the average respondent, a number of claims equal to 1.95% of the lease portfolio was submitted under residual value insurance policies in 1989 and the average claim amount was $1,573.

Lease Termination

The length of the average new lease has extended in recent years, and in 1989 the average open-end lease was 48 months while the average closed-end lease was 50 months. Average turnover for the total portfolio remained constant at 37.2 months in 1989. The average length of terminations by length of lease is provided in Table 39:

Table 39

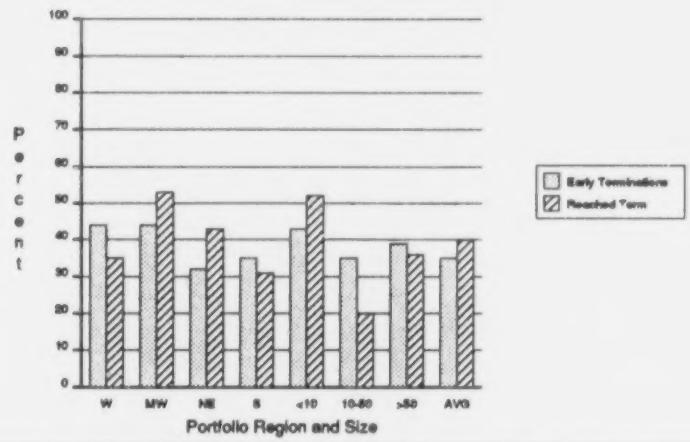


There is a definite trend that shows that the longer the term of the lease, the greater the possibility that the lease will be terminated early.

In 1989, 35% of all leases terminated early, compared to 30% in 1988 and 27% in 1987. Table 40 presents a breakdown of leases that terminated early and those that reached term:

Table 40

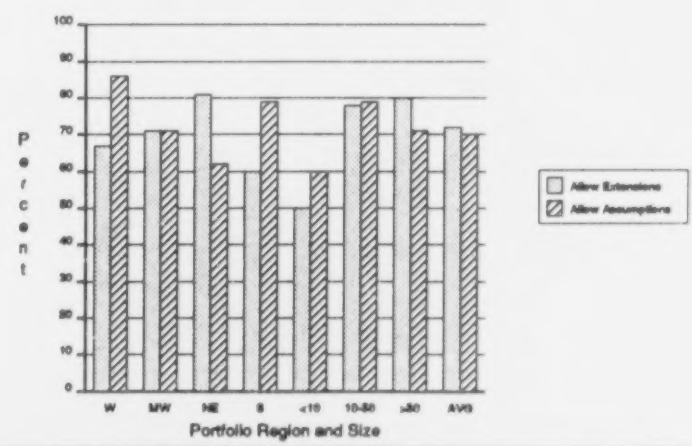
Early Terminations & Reached Term



The majority of lessors from all regions and of all sizes allow extensions of existing lease contracts beyond the original terms of the lease as well as third party assumptions. Those institutions with smaller portfolios tend to make these offerings less frequently, as shown in Table 41:

Table 41

Extensions & Third Party Assumptions

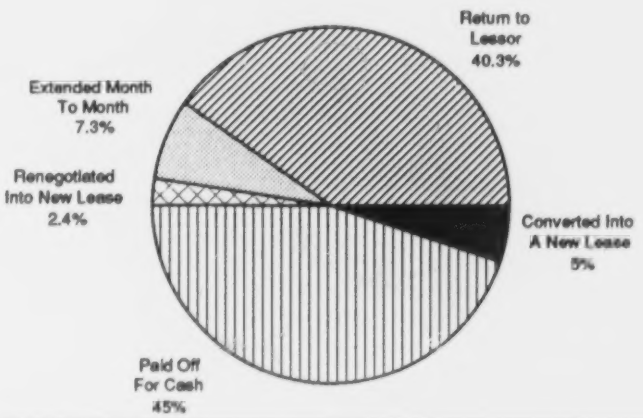


In 1989 72% of respondents allowed extensions compared to 75% in 1988, while 70% allowed third party assumptions, compared to 67% in 1988; 29.5% of assumptions were converted into new lease contracts compared to 27% in 1988.

For leases that reach term, most are either paid off for cash or returned to the lessor, as shown in Table 42:

Table 42

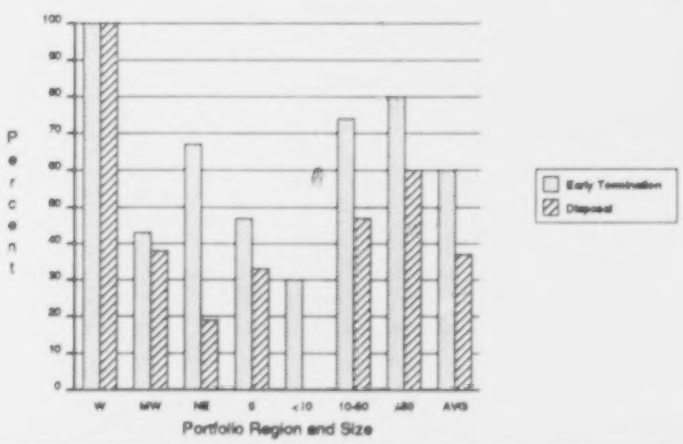
Leases That Reach Term


Return to Lessor 40.3%
Converted Into A New Lease 5%
Paid Off For Cash 45%
Renegotiated Into New Lease 2.4%
Extended Month To Month 7.3%

Many institutions apply a penalty fee for early termination and some apply a disposal fee when the lease matures. Use of these fees is presented below in Table 43:

Table 43

Early Termination & Disposal Fees



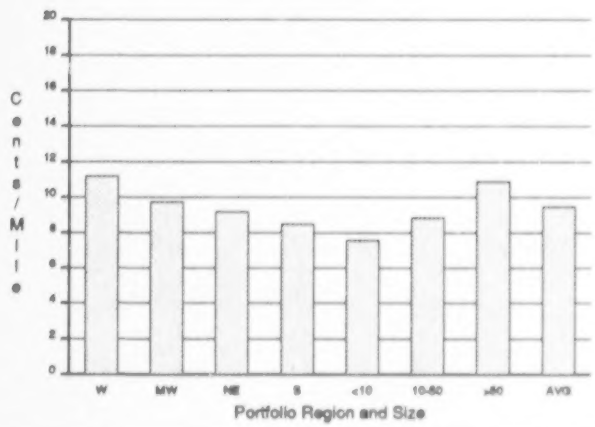
An early termination fee was applied by 60% of respondents, compared to 55% in 1988. The fee averaged $250 and ranged from $100 to $600, compared to an average of

$200 in 1988. A disposal fee was applied by 37% of respondents, compared to 33% in 1988. It increased in average by $30 to $200 in 1989 and ranged from $95 to $300. As is shown on previous page, the Western institutions all apply both an early termination fee and a disposal fee. Use of both fees varies substantially by region.

The annual allowable mileage varied from 12,000 to 18,000, with 80% of respondents allowing 15,000 miles per year. All institutions charge an excess mileage fee, which averaged 9.5 cents per mile and ranged from 5 cents to 25 cents per mile. The average amount charged for excess mileage is presented in Table 44:

Table 44

Amount Charged for Excess Mileage

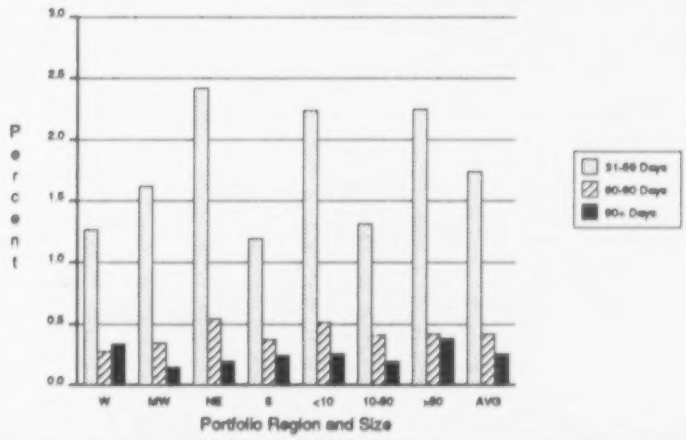


Delinquencies, Repossessions, & Losses

The average percentage of lease delinquencies as a percent of outstandings 31 to 59 days overdue for 1989 increased to 1.74% compared to 1.43% in 1988. The range was from 0% to 8.06%. For 60 to 89 days the average was .42% with a range of 0% to 2.54%, and .25% for over 90 days with a range of 0% to 1.92%. The figures were .29% for 60 to 89 days and .20% for over 90 days in 1988. Delinquencies did vary somewhat by institution region and size, however, as presented in Table 45:

Table 45

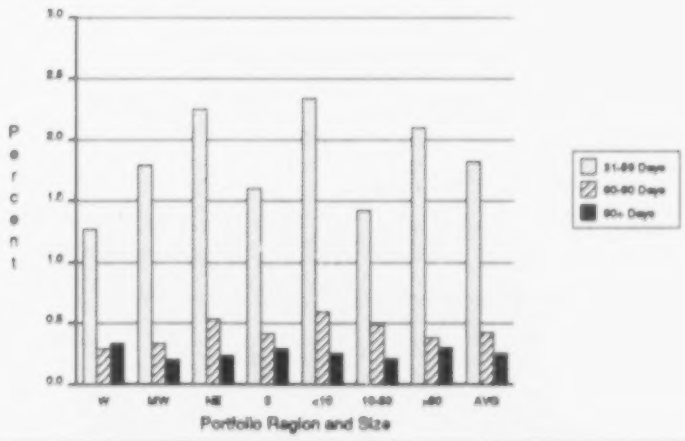
Delinquencies - Percent of Outstandings



Those institutions from the Northeast had a slightly higher delinquency rates at 2.42%. As in 1988, the Western region had the lowest overall delinquency rate at 1.26%, which may be because many of the respondents from this region have a considerable amount of leasing experience. In 1989, respondents were also asked to provide delinquency figures as a percentage of accounts. These figures largely mirror those above, and are provided in Table 46:

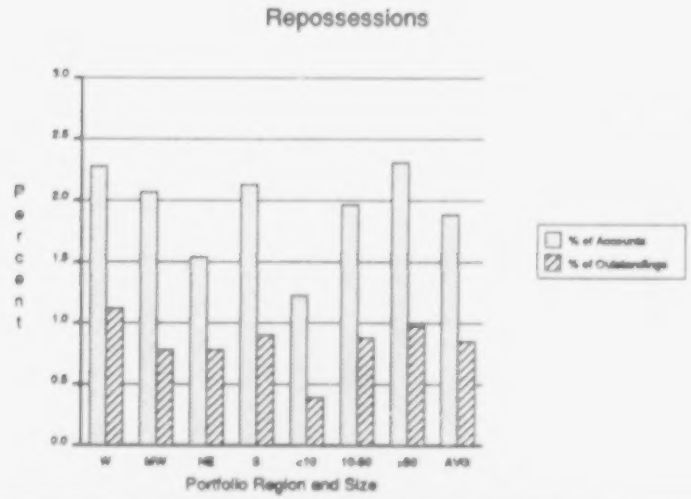
Table 46

Delinquencies - Percent of Accounts



The number of automobile repossessions appears to have varied slightly, but averaged less than 1% of outstandings and 2% of accounts for all regions in 1989, as shown in Table 47:

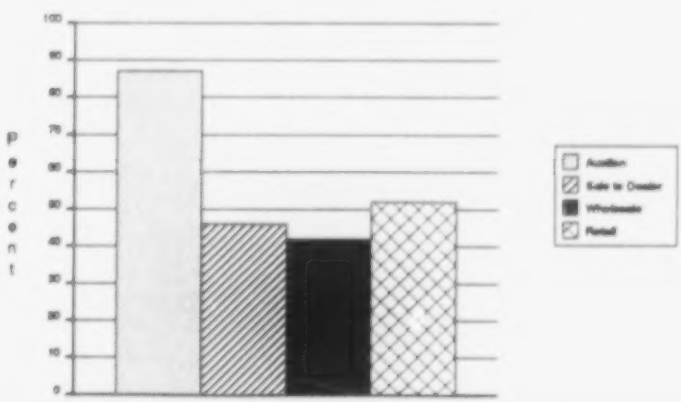
Table 47



Repossessions resulted in an average loss of .85% of outstandings and varied slightly by region and size. Repossessions were lowest in the Northeast, and for smaller portfolios.

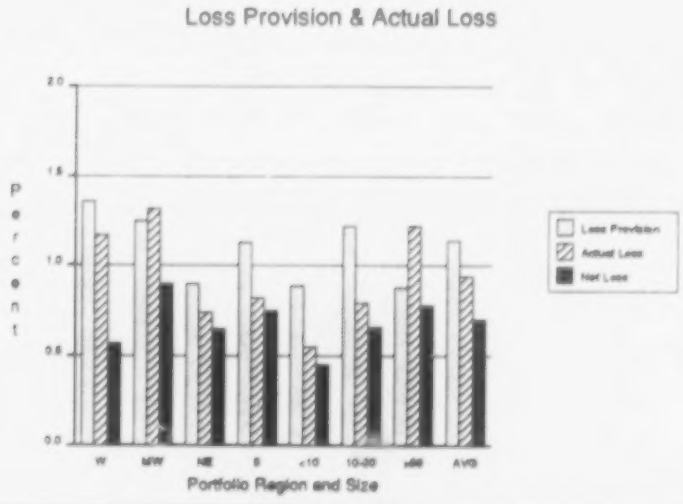
Repossessed automobiles must be disposed of in some manner, and there are a variety of ways of doing so. Table 48 presents a profile of the percentage of respondents who utilized the different methods:

Table 48



The loss provisions and actual losses reported by 1989 respondents increased slightly compared to the previous year, and are shown in Table 49:

Table 49



There were no significant region or size differences among respondents. The overall average loss provision was 1.14% of average net outstandings, compared to 1.09% in 1988. The range was .37% to 3.30%. Reported losses averaged .94%, an increase of .08% from 1988, and ranged from .09% to 2.92%. In 1989 respondents were asked to also report net loss after recoveries, and this averaged .70% with a range from .03% to 1.95%. The average annual percentage of gross recoveries to gross losses was 18.5%, and an average of 26.3% of gross charge-offs were the result of bankruptcies.

Conclusion

Growth in demand for leasing is predicted to last for many years, and more financial institutions are being attracted to leasing because of the customer who is more creditworthy, the possibility of generating greater tax adjusted profits than loans would produce, and the opportunity to compete with the captives' subvention programs.

Automobile leasing does indeed provide an opportunity for many financial institutions, but it is a very different business than conventional financing. With unpredictable body style changes as well as demographic shifts, the accurate prediction of residual values will be a major factor affecting success in this industry. As lease length increases, lessors incur more risk, and they must take this risk into account in their product offerings. Some interesting information from this year's survey includes the following:

- The majority of growth is in the indirect leasing business.
- Over 35% of all leases terminate early.
- The length of the average lease is increasing.
- Over 50% of respondents do business with lease brokers.
- Use of acquisition and disposal fees is increasing.
- Capitalization of fees is done by almost 90% respondents.
- There has been no increase in computer links with dealerships.
- Eighty percent of respondents process indirect leases in under 4 hours.
- Longer leases appear to have a greater chance of early termination.
- Average capitalized cost decreased slightly.
- Use of closed-end leases is much more common than open-end.

AUTOMOBILE FINANCING

Many lenders experienced problems in 1989, stemming from consumers overladen with debt, and lax credit policies of lenders. Personal bankruptcy filings were at a decade high, as individuals have overextended their debt capacity.[11] As consumers now consider the monthly payment and not necessarily the price of the car, dealers and financiers compete fiercely for buyers/borrowers. However, consumers are allowing voluntary repossession due to negative equity as their loans become larger than the car value. Similarly, high costs of insurance overwhelm buyers, as they are unable to cover both the monthly car payment and the accompanying insurance premium.

The captive arms of GM and Ford are encountering greater delinquencies, repossessions and additional types of credit-repayment problems. Several reasons have been given for the captives' problems--negligent credit policies, inexperienced staff, and lengthening loan terms (as long as 84 months for some luxury cars). Also, dealers are becoming more and more unwilling to underwrite their loans; non-recourse loans from captive arms now count as 75% of the total loans offered.[12] The captives are continuing to be aggressive, however, as in addition to rebates and subvention, they also developed some new techniques such as tiered lending in 1989 to bolster sales and maintain market lending share.[13]

Several groups attempted to increase their presence in the market during 1989. Marine Midland, the largest bank financier of autos in the U.S., formed a joint venture with a Japanese company with assets totaling $8 billion. They have aggressively pursued smaller foreign automakers, and now serve, in effect, as the captive finance arm for companies such as Austin Rover, Mazda, Porshe, Saab, and Subaru.

Credit unions are also gearing up to try and recapture lost market share. A campaign kicked off in 1989 rebukes captive finance arms and accuses them of using "pressure, deception, and confusion" to lure buyers. Because credit unions are exempt from many state and federal taxes, their rates tend to be several percentage points lower than banks or finance companies. Still, market share has continually slipped; the credit unions hope that their campaign aimed at 15,500 credit unions serving 60 million customers will reverse this trend.[14]

Banks, still maintaining a strong showing, have found certain methods to compete with the captive finance arms. As the average length of loan increases with the amount of principal, banks too, are seeking to increase length of their loans and keep interest rates low and competitive with the captives. Other unique methods include pre-approved credit vouchers sent to customers, home-equity loans with deductible interest, and fast approvals. Many traditional consumers still look toward their banks for auto loans.[15]

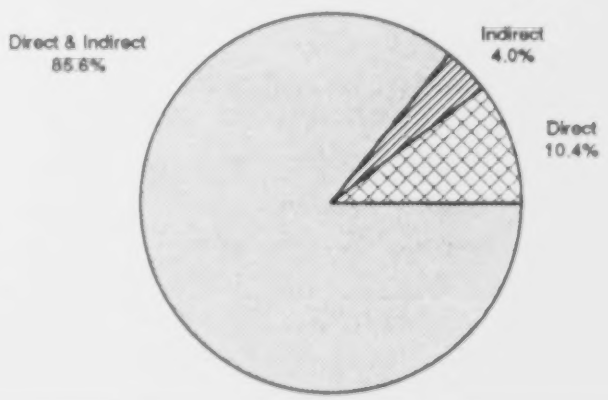
Lending

All 135 respondents to this year's survey were involved in automobile lending. The average number of years in the lending business was 28, with a range from 2 to 89 years, and 80% of respondents have been in auto lending for more than 10 years.

Table 50 illustrates that the vast majority of responding institutions offered both direct and indirect financing, as only 10.4% offered just direct and 4% offered just indirect lending.

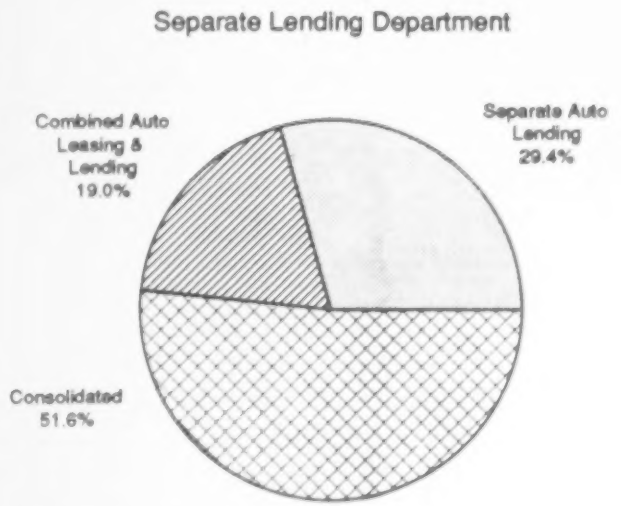
Table 50

Financing Services



There are a variety of ways that financial institutions involved with lending are organized, as shown in Table 51 on the following page:

Table 51



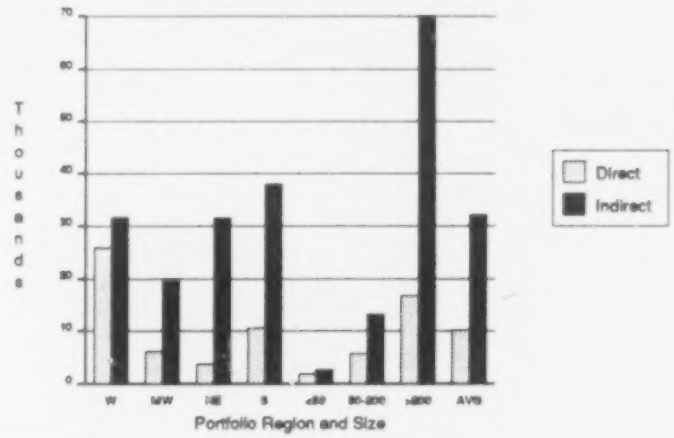
Approximately one-half of responding organizations consolidate the auto financing function with other forms of consumer lending while about 30% have a separate lending department. This breakdown is very similar to 1988, although there was a slight increase in separate lending departments from 26%.

Loan Portfolio

As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. The measure used was the total indirect portfolio of outstandings, due to the high frequency of responses to this item. An attempt was made to divide the sample approximately into thirds, and also to identify naturally occuring break points in the average portfolio. As a result, the cutoff points were at $50 Million and $200 Million, with the smaller (< $50 million) portfolios comprising 27% of the sample, the medium sized ($50-$200 million) portfolios 38%, and the larger (> $200 million) portfolios 35%. Table 52 presents the number of outstanding loans by region and portfolio size:

Table 52

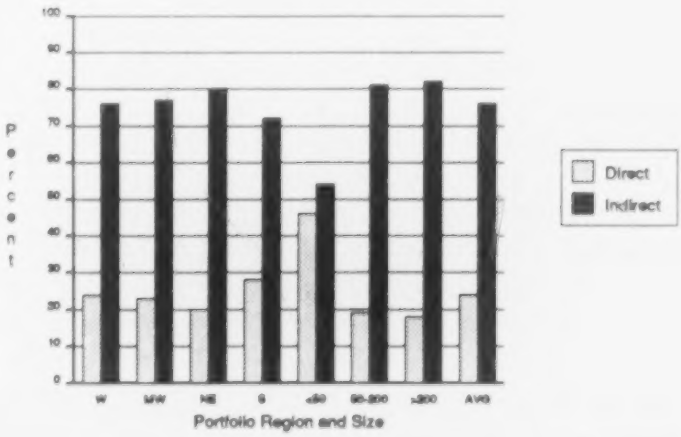
Number of Outstanding Loans



The average portfolio consisted of 10,135 direct loans and 32,030 indirect loans. The loan portfolio of most institutions, however, consisted primarily of indirect loans, as shown by the percentage of direct loans in the average portfolio in Table 53:

Table 53

Portfolio Mix



The overall average of the percentage of direct loans in the portfolio has continued to decrease, to 24% from 28% in 1988 and 31% in 1987. There was an average overall increase of 9% for the number of indirect loans made, while direct loans decreased 4%. As shown in the previous table, the smaller institutions tend to have a larger percentage of their business in direct lending relative to the larger institutions and they did approximately an equal amount of direct and indirect lending. In contrast, the larger institutions do a much greater percentage of indirect lending, comprising approximately 80% of their automobile portfolios in 1989. Regionally, the Northeast had the greatest percentage of indirect loans.

Loan Approval

In 1987 the approval rate was 59%, and in 1988 it was 57%. In 1989 there was little change in the overall average approval rate, which was 56%. The direct approval rate, however, was 61%, a full 10% higher than for indirect loans, and the percentage of direct loans booked was significantly higher at 54%, compared to 35% for indirect loans. There were also some major differences across institution region and size, as shown in Tables 54 and 55:

Table 54

Direct Loan Approval

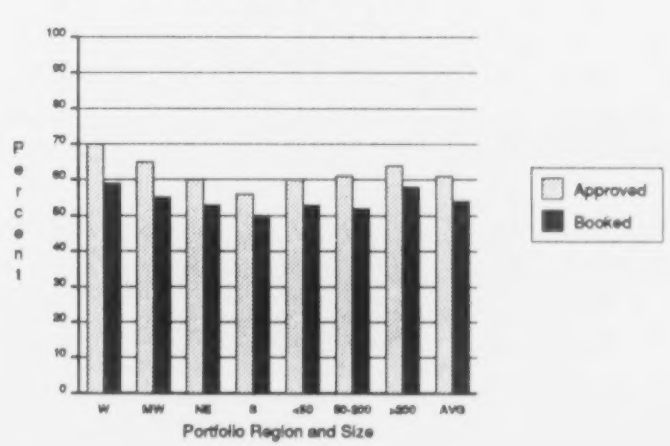
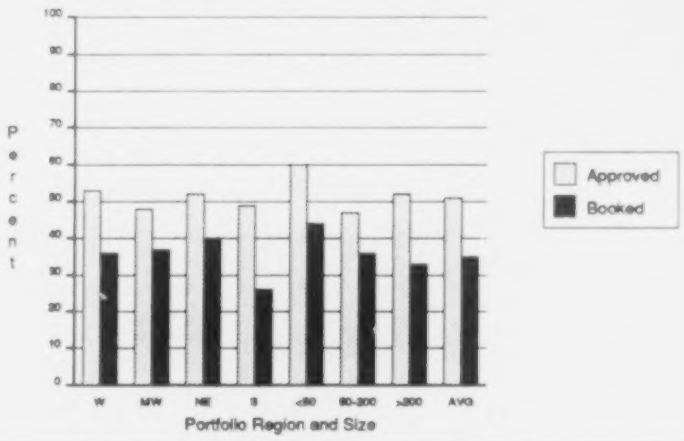


Table 55

Indirect Loan Approval

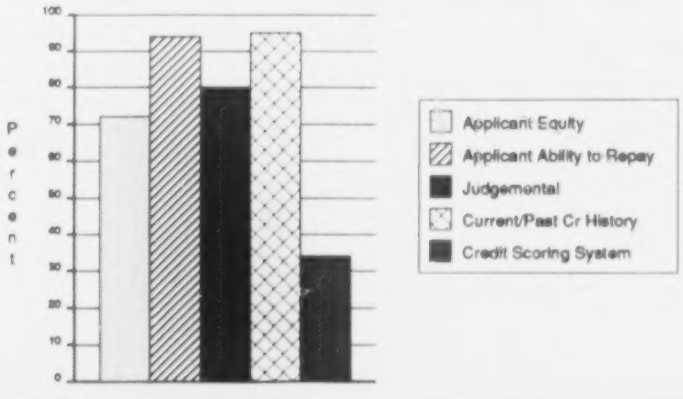


For the third year in a row, the West and Northeast regions had the highest loan approval rates. There is little variance across region and size for direct approval and booking rates, but substantial differences exist in indirect rates, suggesting the relationships institutions have developed with dealers vary considerably. An analysis of the acceptance and booking rates and the volume of applications from various dealerships could be conducted to enable management to identify those for whom an organization is a primary lender.

This year's survey asked respondents to report the criteria that they were currently utilizing for loan approval decisions. There were few regional or size differences, and most institutions reported using multiple criteria. As seen Table 56 reports the results from this question.

Table 56

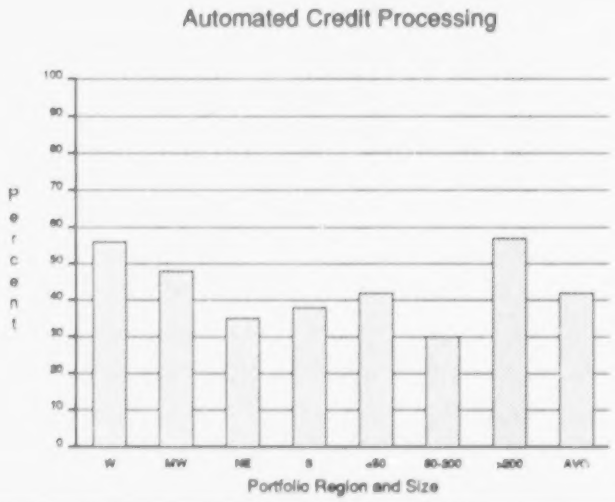
Loan Approval Criteria



Current/past credit history and applicant ability to repay were the most commonly reported criteria, while credit scoring was reported least frequently.

The use of an automated credit processing system varied considerably across size and region, with an overall average of 42%. Over half of the larger institutions and those in the West utilized automated credit processing. Table 57 illustrates the distribution:

Table 57



Of those using an automated credit processing system, questions were asked on this year's survey regarding specifics about the credit processing system. Table 58 reports the results for the overall sample:

Table 58

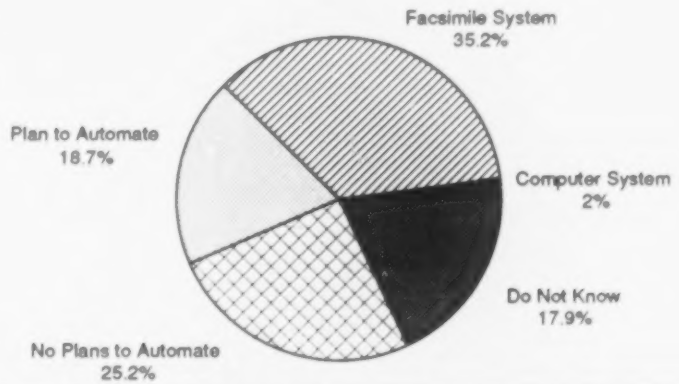
Credit Processing System

2%	Computer Link with Dealers
84%	Automated Credit Bureau Interface
60%	Credit Scoring
45%	Queuing
40%	Document Preparation
82%	Letter Preparation
15%	Collections Interface
44%	Mainframe Interface
29%	Automated Pass to Loan Accounting System

Only 2% have a direct computer link with dealers while over 80% of respondents reported having an automated credit bureau interface and letter preparation. The degree to which respondents were automated or planned to automate their relationships with dealers was also assessed and is reflected in Table 59:

Table 59

Presently Automated



The use of the facsimile machine continues to be popular, but many respondents apparently plan on continuing to use the telephone as their primary means of interacting with dealers.

The average processing time from application to loan decision was also requested in this year's survey, and the results are presented in Tables 60 and 61:

Table 60

Direct Average Processing Time

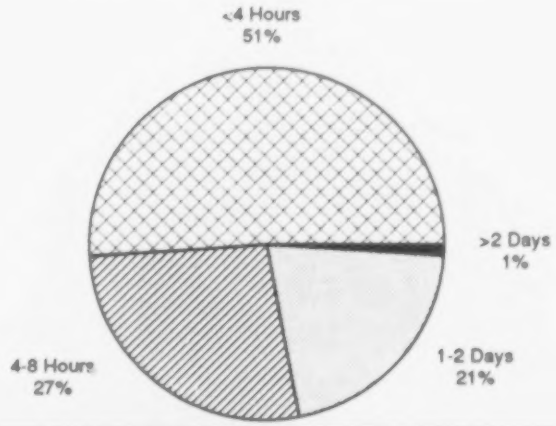
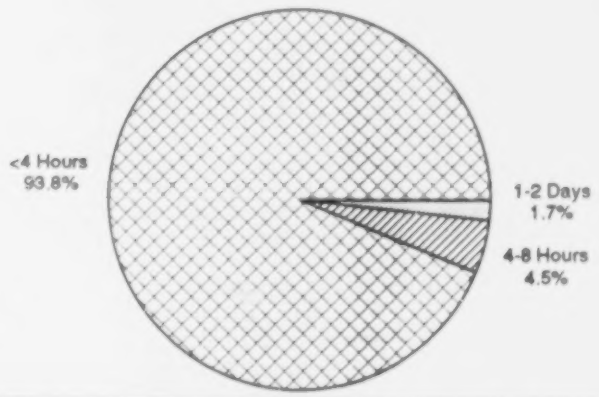


Table 61

Indirect Average Processing Time



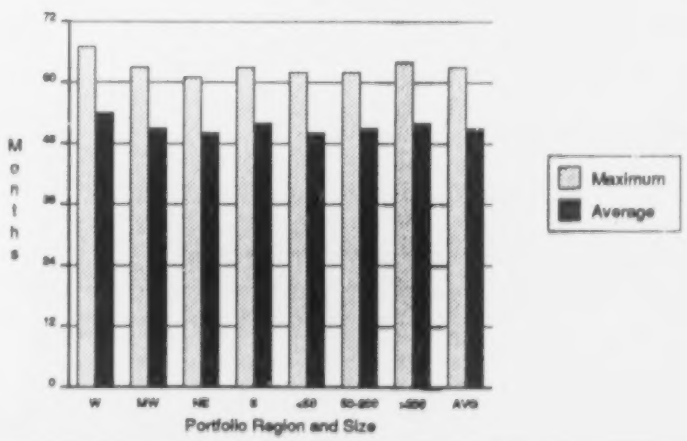
Almost all respondents process indirect loan applications in less than 4 hours, while just over half match that time for direct loans.

Lending Offerings

The length of a loan can have a significant impact on the consumer's monthly payment, but with a minimal downpayment, it may also result in a situation where the consumer has negative equity in the vehicle. Maximum and average loan maturities for new cars are presented in Table 62:

Table 62

Loan Maturity

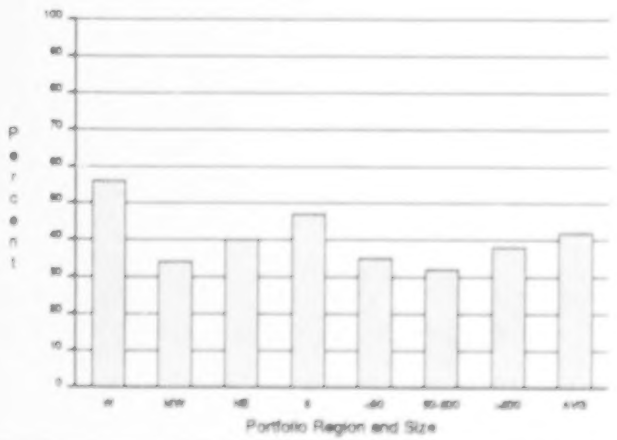


The overall average maximum maturity for new loans in 1989 was 63 months, with a range from 48 to 84 months. The average maturity was 51 months, with a range from 37 to 60 months. Both of these figures are down from 1988, when the maximum was 65 months and the average 53 months. The required down payment averaged 13% of the sales price, but ranged from 0% to 25%.

Cross-selling of services is becoming an important issue to many financial institutions, and in an attempt to assess the degree to which this activity is utilized, respondents were asked if they offered different terms and conditions on loans to current bank customers. The results are presented in Table 63:

Table 63

Banking Customer Terms



The overall average was 42%, with the Western region leading the way with 56%. The Midwest was the lowest at 34%, and there were no significant size differences apparent.

There are a variety of pricing/accounting methods being utilized by lending institutions. The percentages of institutions offering the various methods are presented in Tables 64 and 65:

Table 64

Direct Financing Methods

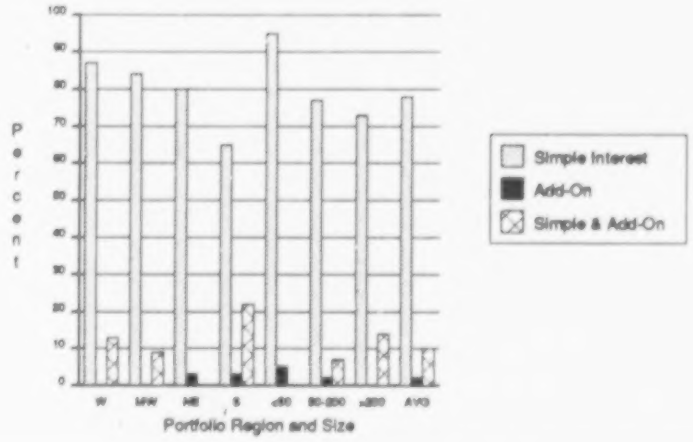
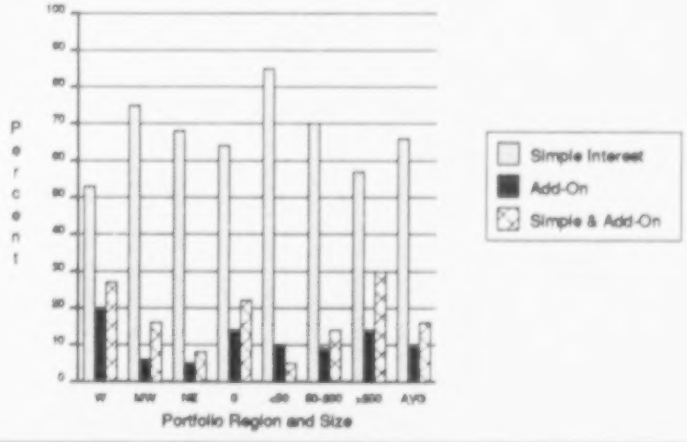


Table 65

Indirect Financing Methods

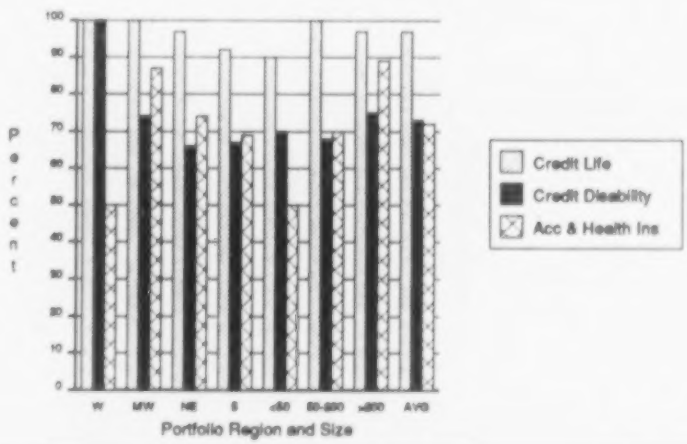


There was a substantial amount of agreement across size and region regarding direct financing methods, as simple interest was by far the most commonly used, almost exclusively by institutions with smaller portfolios. Use of add-on by itself was very infrequent. For indirect financing, simple interest was also the most common, but many institutions also utilized simple interest and add-on as well as add-on. In the Western and Southern regions the latter two methods are used quite frequently.

Almost all lending institutions offered financing for various types of insurance in addition to the automobile loan, as shown in Table 66:

Table 66

Insurance Financing



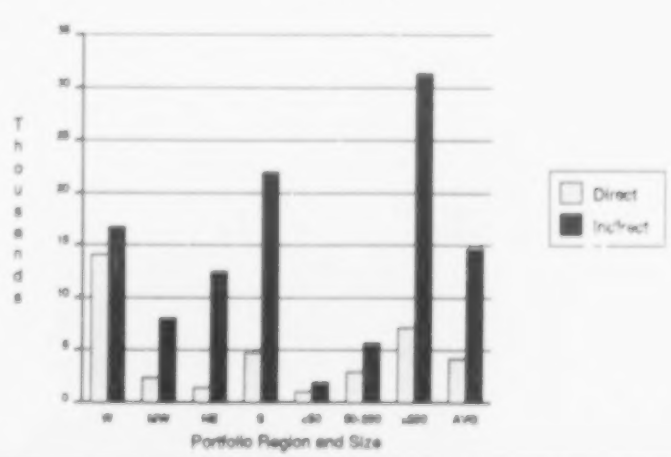
No major regional or size differences emerged in the offering of these services, and they are all offered by the vast majority of lending institutions. Overall, 97% offered credit life, 73% credit disability, and 72% accident and health insurance.

Lending Activity

For the first time in the last three years, the mix of direct and indirect lending activity remained unchanged at approximately 25% direct. Table 67 presents profiles of lending activity for direct and indirect lending:

Table 67

Loan Activity



The overall average for respondents was 4,192 direct loans and 14,710 indirect loans. The West had the highest average number of direct loans at 14,091, while the South led in indirect loans at 21,971. The average loan was $11,447 for new cars and $7,779 for used cars.

Overall, direct activity decreased 3% in number of loans and 1% in dollar volume, while indirect activity increased an average of 9% in number of loans and 10% in dollar volume. There were substantial regional differences, however, as shown in Tables 68 and 69:

Table 68

Percent Change in Direct Loans

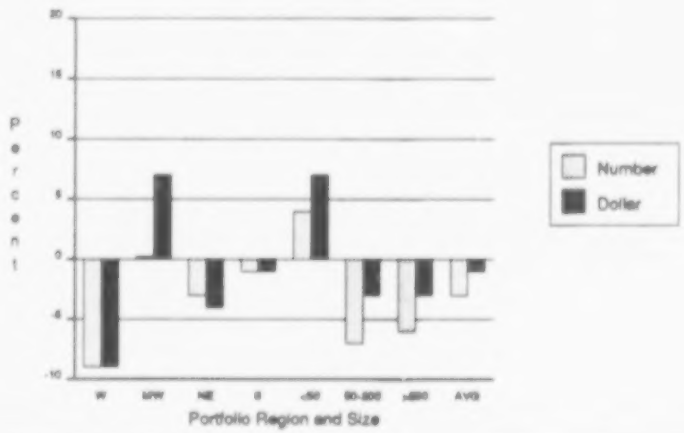
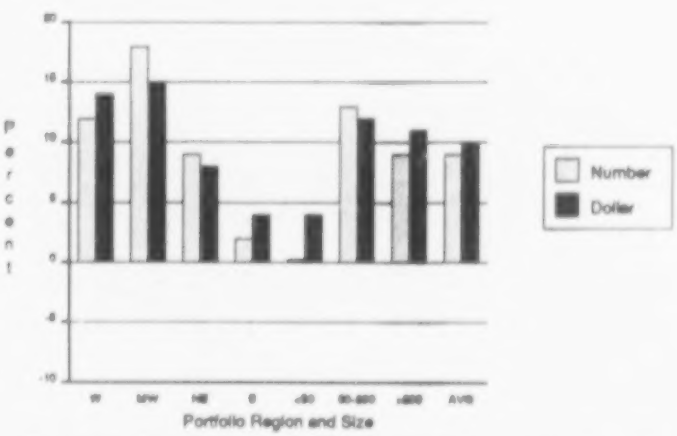


Table 69

Percent Change in Indirect Loans



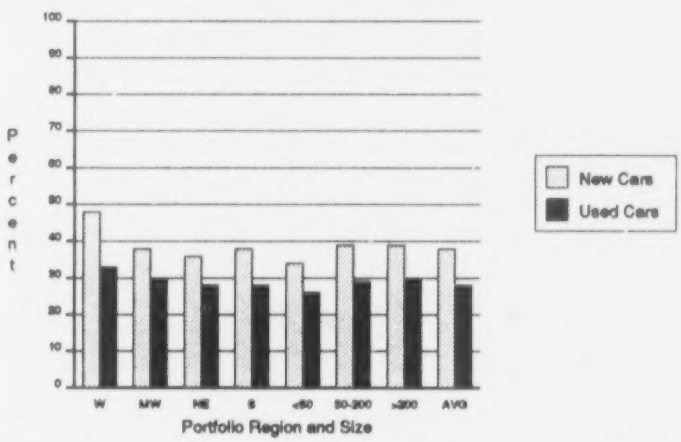
The Western region had the greatest decrease in direct activity, while institutions with smaller portfolios increased direct activity slightly, and the Midwest experienced a slight increase in direct dollar volume. The West and Midwest experienced the greatest gains in indirect activity, and the smaller institutions the least gain.

Portfolio activity can also take place in secondary markets. In 1989, respondents were asked if they had purchased from or sold to other financial institutions portions of their automobile portfolios. Six percent responded that they had purchased from other financial institutions, 6% had sold, and 8% had sold in other secondary markets.

Average portfolio turnover was 38 months for new cars and 28 months for used cars, but several regional differences existed, as shown in Table 70:

Table 70

Average Portfolio Turnover

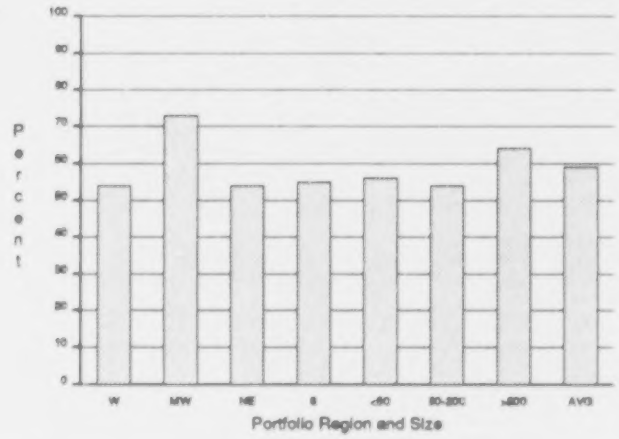


Respondents from the Western region had the longest average portfolio turnover at 48 months for new cars and 33 months for used cars. In 1988, the overall average turnover for new cars was 32 months.

In 1989 a total of 59% of all loans paid out early, compared to 61% in 1988. The Midwest led with 73%, and Table 71 presents a breakdown by region and size:

Table 71

Early Payout

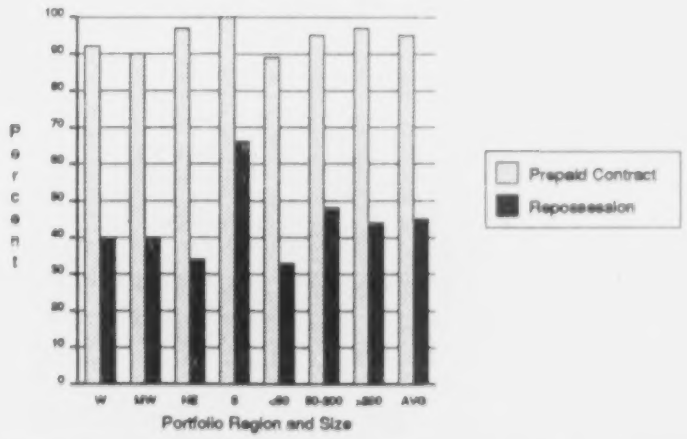


Dealer Relationships

Several questions were asked on this year's survey regarding dealer reserves. Ninety-eight percent of respondents calculated dealer reserves as a percentage of the amount financed, while 2% used a flat fee per loan. The amount paid up front averaged 87%, and ranged from 20% to 100%. Respondents were asked if they charged back dealer reserves on prepaid contracts and in the event of a repossession. Results are presented in Table 72:

Table 72

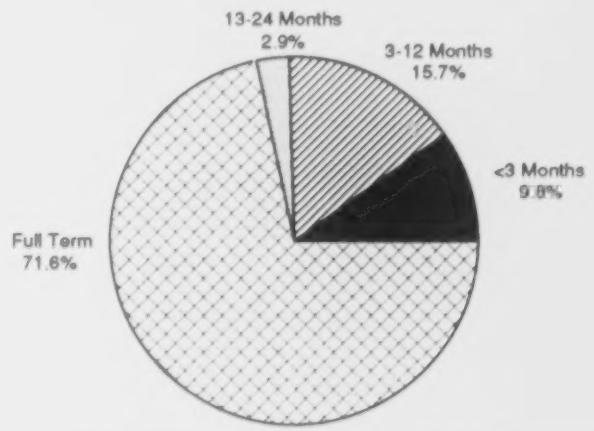
Dealer Reserve Charge Back



Overall, 95% charged back dealer reserves on a prepaid contract, with no regional or size differences apparent while 45% charged back the full amount of dealer reserves following a repossession. Respondents from the South made most common use of this practice, at 66%. Table 73 refers to prepaid contracts, and reflects responses to the period of time to which respondents charged back:

Table 73

Time Period of Charge Back



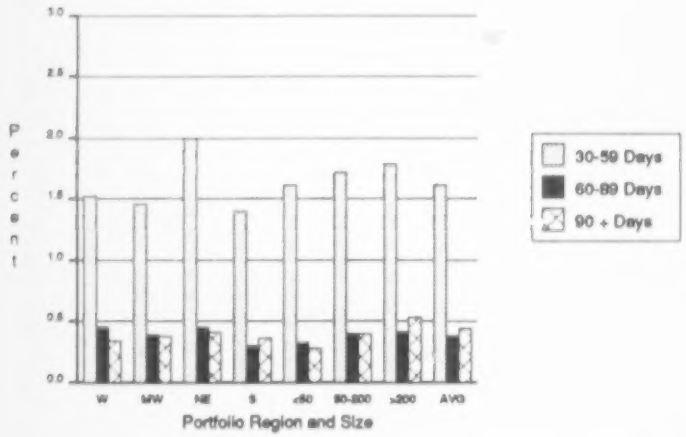
Almost 72% of respondents charged back dealer reserves on a prepaid contract for the full term of the contract.

Delinquencies, Repossessions, & Losses

The average percentage of loan delinquencies as a percent of outstandings 31 to 59 days overdue for 1989 increased to 1.61% compared to 1.31% in 1988. The range was from 0% to 4.93%. For 60 to 89 days the average was .38% with a range of 0% to 2.00%, and .44% for over 90 days with a range of 0% to 2.80%. The figures were .45% for 60 to 89 days and .44% for over 90 days in 1988. Delinquencies did vary somewhat by institution region and size, however, as presented in Table 74:

Table 74

Delinquencies-Percent of Outstandings

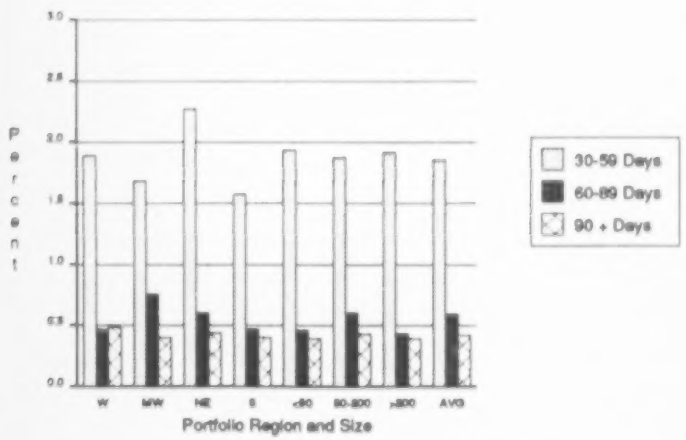


Those institutions from the Northeast had a slightly higher 30 to 59 day delinquency rate at 2.00%, while the Southern region was the lowest at 1.40%.

In this year's survey, respondents were also asked to provide delinquency figures as a percentage of accounts. These figures largely mirror those above, and are provided in Table 75:

Table 75

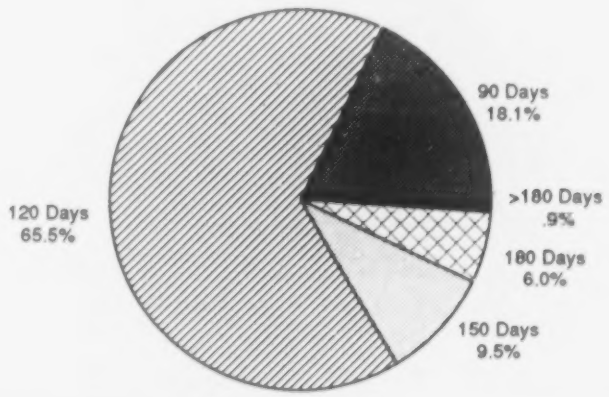
Delinquencies-Percent of Accounts



Seventy-seven percent of respondents attempt to renegotiate delinquent loans that would otherwise be charged off. The most common active loan charge-off policy is 120 days, and the breakdown of normal charge-off policies is presented in Table 76:

Table 76

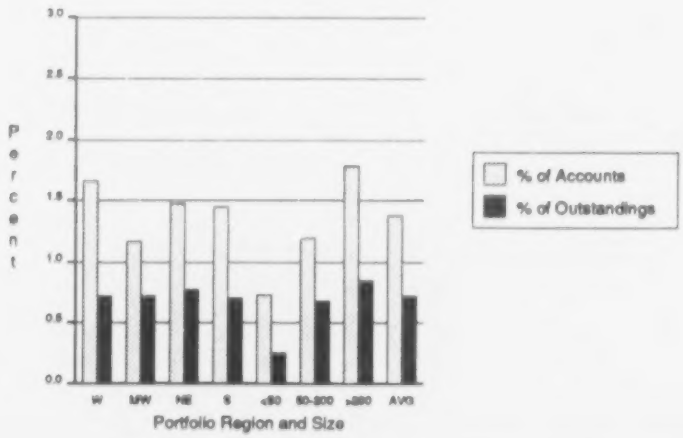
Active Loan Charge-Off Policy



The number of automobile repossessions appears to have varied slightly by region and size in 1989, as shown in Table 77:

Table 77

Repossessions

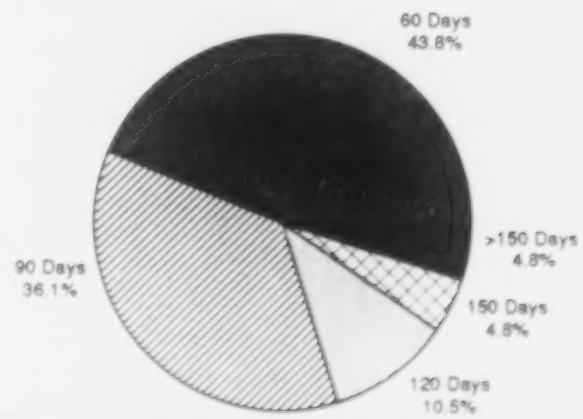


Repossessions averaged 1.38% of accounts and resulted in an average loss of .72% of outstandings, compared to 1.03% in 1988. The ranges were from .01% to 4.14% of accounts and 0% to 3.5% of outstandings. Repossessions were lowest in the Midwest at 1.17% and for smaller portfolios at .73%. The average expense per repossessed unit was $488.

The most common repossession charge-off policy is 60 days, and the breakdown of normal charge-off policies is presented in Table 78:

Table 78

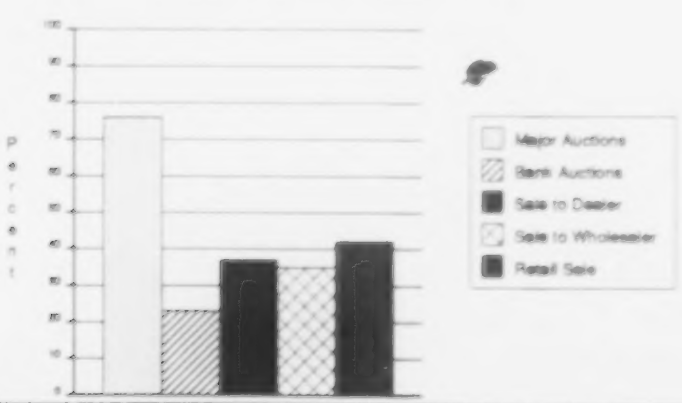
Repossession Charge-Off Policy



Repossessed automobiles must be disposed of in some manner, and there are a variety of ways of doing so. Several methods of disposal were utilized by many respondents with major auctions being the most popular. Table 79 presents a profile of the use of the different methods:

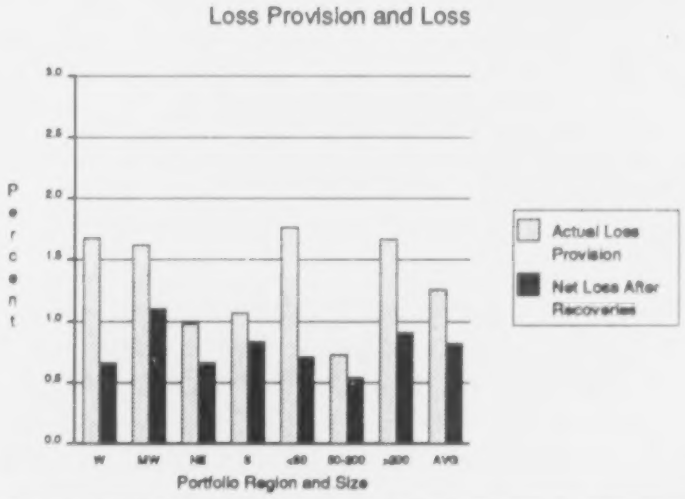
Table 79

Redisposition of Repossessions



The loss provision increased very slightly while actual losses decreased in 1989 compared to the previous year, and are shown in Table 80:

Table 80



There were some significant region and size differences among respondents, as those in the Northeast and South and those with smaller portfolios tended to have smaller loss provisions. The overall average loss provision was 1.26% of average net outstandings, compared to 1.14% in 1988. The range was .75% to 5.95%. Reported losses averaged .82%, a decrease of .12% from 1988, and ranged from .00% to 4.06%.

The average annual recovery rate as a percent of losses was 26.6%. The average annual percentage of gross recoveries to gross losses was 17.7%, and an average of 19.5% of gross charge-offs were the result of bankruptcies.

Conclusion

One major trend that is continuing is that indirect loans comprise the majority of most portfolios, which emphasizes the importance of dealer relationships. It might be wise to examine the quality of the indirect applicant and the volume of applications from the various dealerships. This would enable management to determine those dealers with whom your organization is a primary lender and then cultivate those relationships.

There are also certain advantages to direct loans from the lender's perpective; they result in fewer losses and repossessions and there are no dealer reserves to reduce the yield of the loan.

It is going to become more important in the future for banks to identify their primary customers, both individual consumers and automobile dealerships, and work at developing relationships with them. As the automobile financing industry continues to mature, efficiency and cost management as well as creativity and innovation are going to be the keys to future success. Some important information from this year's survey includes the following:

- Average and maximum loan maturities decreased.
- There were no major changes in loan approval rates.
- Forty percent of respondents offer better terms to current customers.
- Approval and booking rates are much higher for direct loans.
- Almost 60% of loans pay out early.
- There was a slight increase in delinquencies.
- Ninety-four percent of respondents process indirect loans in under 4 hours.
- Direct loans decreased 3% while indirect loans increased 9%.

AUTOMOBILE FLOORPLANNING

The past years of margin slimming and higher rebates have taken a toll on dealers. In 1989 profits sagged 50% for dealers, while costs rose. Floorplanning costs increased 57% to $313 per unit. Fleet subsidies increased, as did mandatory advertising costs, while there were reductions in payments for warranty work, and carryover allowances were eliminated. These problems have, according to the NADA, left one-half of all dealers operating in the red or at a break-even point.[16] More than 100 dealers are considering either bankruptcy or abandonment of their dealerships. The high price of urban real estate makes other options appear more lucrative than space-intensive auto retailing.[17]

The continued reduction in profitability for dealers is expected to cause a shakeout in the coming years. One of five average sized dealer expects to drop a brand in the next few years. As it becomes a "survival of the fittest," only the strong will survive, leaving fewer dealers with more power over their suppliers.[18]

As a group, dealers blame many of their problems on their parent companies. Led by the NADA, the dealers have demanded change, and more support of the dealers. Because of their power, the auto companies can force the dealers to take on more costs, lowering dealer margins which, in 1989, were less than 1% of sales.[19] In response to the captives, the NADA proposed it own finance company which would offer lower rate financing to dealers than captive offerings. The plan was not completed due to prohibitive debt costs, but may be viable in the future.[20]

Some banks are severing relationships with dealers because of the high costs of obtaining dealer business and inconsistencies in the relationship. Dealers have had the upper hand with banks by negotiating low rates for commercial needs like floorplanning, capital infusion and real estate loans. Some have also used their influence to convince the financial institution to buy their retail paper, including marginal contracts.[21]

Banks which have found dealer relationships most profitable offer a wide variety of services to enhance total profitability. They maintain deposits while providing floorplanning, real estate loans, term loans, and letters of credit. The most successful banks maintain relations with the dealer throughout economic cycles, providing trust on both sides.[22]

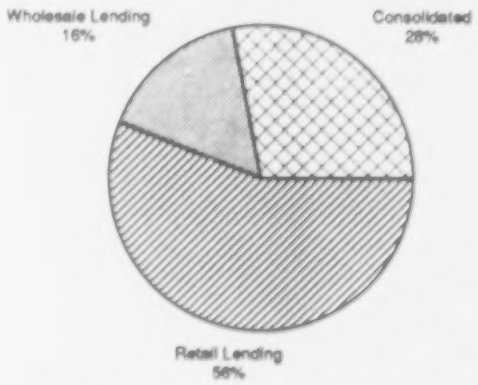
Floorplanning

As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. Due to the high frequency of responses to this item, the measure used was the new car total dollar outstandings. The cutoff points were $50 Million and $200 Million, with the smaller (< $50 million) portfolios comprising 40% of the sample, the medium sized ($50-$200 million) portfolios 30%, and the larger (>$200 million) portfolios 30%.

Automobile wholesale financing activities comprise a major portion of the lending portfolio for many financial institutions. In 1989 floorplanning services were offered by 82 respondents, or 61% of the sample. The average length of time in floorplanning is 25 years, with a range from 2 to 50 years and 87% of respondents have been involved in floorplanning for over ten years. Floorplanning operations are organized in a variety of ways, as shown in Table 81:

Table 81

Floorplanning Organization



The floorplanning activity is part of the retail lending department for 56% of respondents, 16% include it in a wholesale lending department, and 28% include it as part of a consolidated lending department.

Employees

In 1989 the average managerial salary was $36,110, compared to $33,065 in 1988. Table 82 reveals considerable regional and size differences in compensation:

Table 82

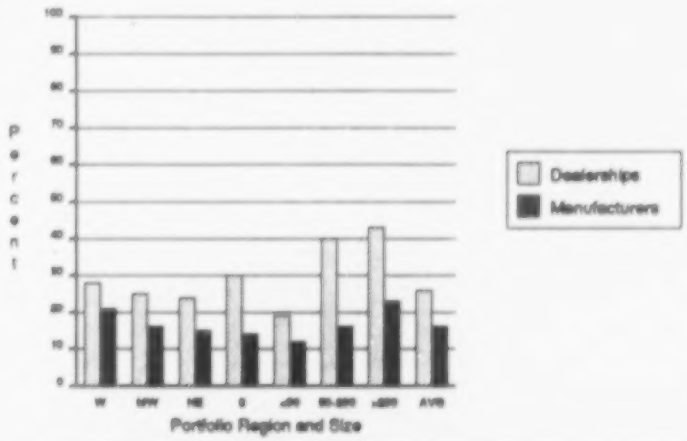
Managers in the Western region had the highest average salary at $41,700, while those in the South had the lowest at $29,518. There is a direct correlation between portfolio size and compensation, as salary increased with the volume in the floorplanning portfolio.

Dealer Relationships

In 1989 the captive arms of the major auto manufacturers continued to be a strong force in floorplanning. The captives have some substantial advantages in terms of the financial packages they can offer to franchised dealerships, and they also can apply leverage through computerization and allotment of automobiles. Many lending institutions are doing quite well in the face of this competition, however. A total of 96% of respondents floorplan through franchised dealerships with little variance across portfolio size and region while 56% floorplan through used car dealers. Table 83 provides a breakdown of the total number of dealerships and manufacturers respondents conducted business with in 1989:

Table 83

Floorplanning Relationships

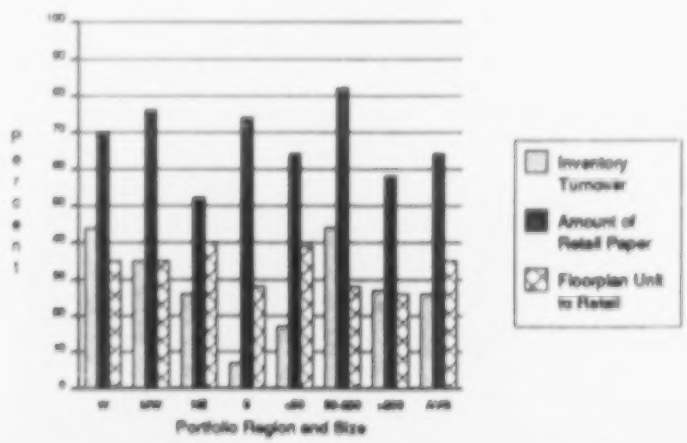


The overall average was 26 dealerships and 16 manufacturers. There were few regional differences, but it is clear that there is a direct relationship with portfolio size and the number of dealers and manufacturers. Most respondents had approximately twice as many retail relationships as floorplanning relationships and all floorplan 100% of dealer invoice.

One objective that lenders may have when establishing floorplanning relationships is to convert floorplan loans into retail loans. There are several aspects of dealer relationships that influence and reflect its quality that were investigated in this years survey. These are presented in Table 84 and will be discussed below:

Table 84

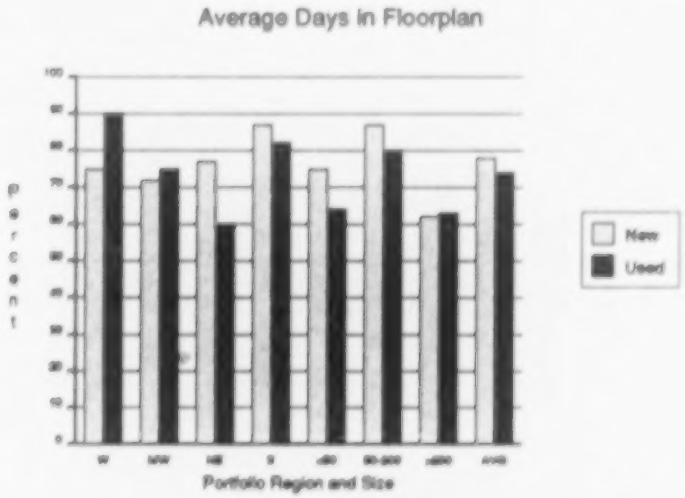
Dealer Relationships



The first column in Table 84 reflects the percentage of respondents who consider inventory turnover as a factor in pricing. The overall average was 26%, but there was significant variance from a high in the West of 44% to a low in the South of 7%. Column two shows the percentage of respondents who consider the amount of retail paper sent by a dealership in pricing decisions. The overall average was 64%, with the Northeast low at 52%. Column three reveals the percentage of floorplanned units that became retail loans, and averaged 35% with little variance. There are many factors that may be taken into account when pricing the wholesale loan, but lenders may want to take advantage of methods that work to the benefit of both the bank and the dealership.

The average number of days that an automobile remains in the floorplan may impact loan interest rates and lending institution profit. The average is presented in Table 85 for both new and used cars:

Table 85



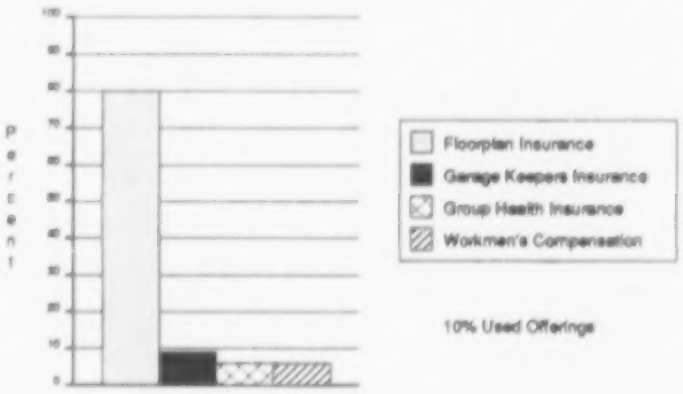
The range for new cars was from 28 to 150 days, while for used cars it was 32 to 138 days. The overall average for new cars was 78 days, compared to 87 in 1988 and 74 days for used cars, compared to 73 days. The South had the highest average for new cars at over 87 days, while the West led in used car average at 90 days. It appears as if those institutions with larger portfolios tend to have a lower average for both new and used cars.

Floorplan Protection

Many lenders offer various forms of floorplan insurance to dealerships, as shown in Table 86:

Table 86

Insurance Offerings



Although 80% of respondents offered some form of insurance, only an average of 10% of dealerships took advantage of the offerings. Clearly, floorplan insurance was offered most frequently.

There are a number of ways in which dealers protect their floorplanning portfolios, and these are usually in the form of agreements and guarantees. Tables 87 through 92 illustrate the types of protection required when financing:

Table 87

Repurchase Agreement

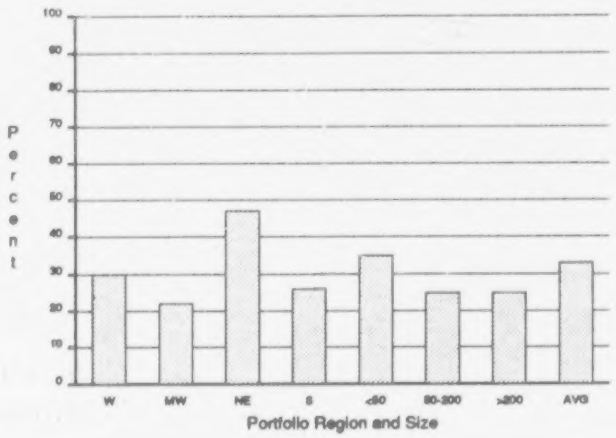


Table 88

Dealer Reserve Agreement

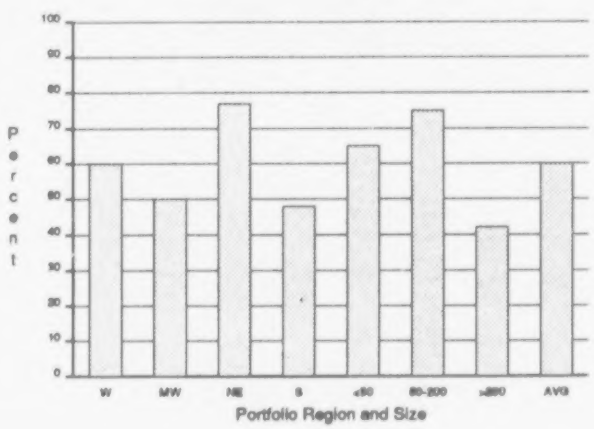


Table 89

Manufacturers Repurchase Agreement

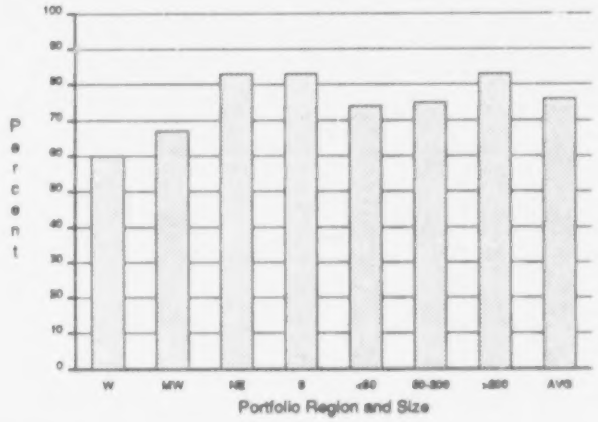


Table 90

Lenders Indemnity Insurance

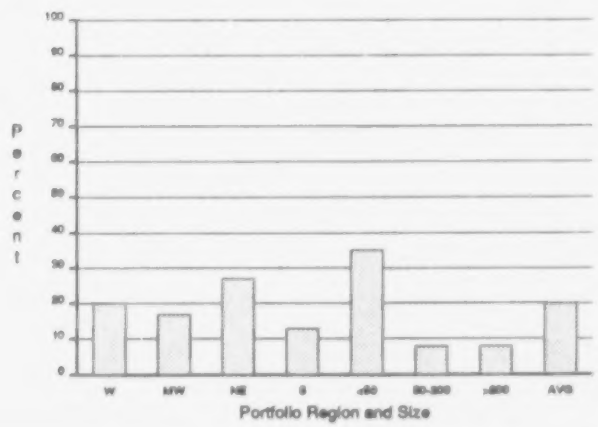


Table 91

Lender Holds MCO

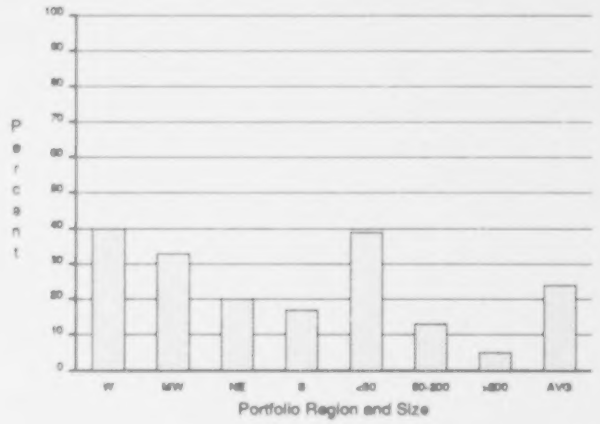
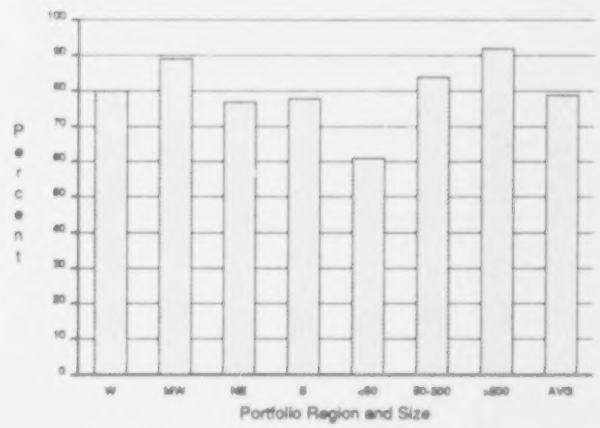


Table 92

Personal Individual Guarantee

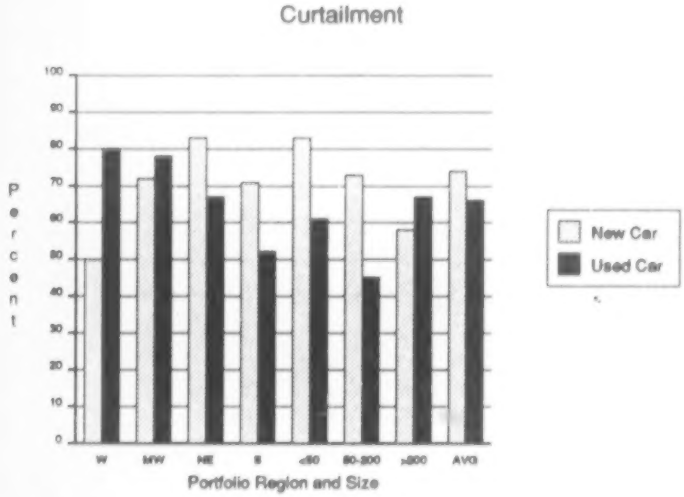


The personal individual guarantee and manufacturer's repurchase agreement were the most common, required by 79% and 76% of respondents, respectively. Lenders indemnity insurance was required least often, by an average of 20%. There were significant regional and differences, however, as shown in the Tables above. In addition to the above requirements, over 95% of respondents require an inspection and verification of floorplanned units by in-house personnel.

Curtailment

Curtailment may be one of the most complex relationships between a lender and a dealership, and the curtailment terms varied tremendously across respondents. Table 93 presents a profile of those who used curtailment for both new and used cars:

Table 93



Overall, 73% of respondents used curtailment for new cars, while 67% did for used cars, percentages virtually unchanged from 1988. No pattern of consistent practice emerged across regions. As in 1988, use of curtailment for used cars was more common than for new cars in the West and Midwest, while just the opposite was true in the Northeast and South. It also appears as if institutions with smaller portfolios would be more likely to use curtailment.

Although curtailment terms varied considerably, summary statistics were compiled to demonstrate the major trends in curtailment terms, and are presented in Tables 94 and 95:

Table 94

New Car Curtailment

Curtailment begins after 11.5 months

after which 13.7% of balance must be

paid each 2.4 months, with balance

to be paid off no later than 14.8 months.

Table 95

Used Car Curtailment

Curtailment begins after 3.1 months

after which 24.7% of balance must be

paid each 1.8 months, with balance

to be paid off no later than 6.8 months.

For curtailment,the mean of responses may be somewhat misleading, and the median, or most frequent response, might provide more useful information. For new cars, these responses were 6 months, 10%, 1 month, and 12 months, respectively for the appropirate spaces above. For new cars, they were 3 months, 10%, 1 month, and 6 months.

Conclusion

There appears to be a trend emerging toward a reduction in direct loans and leases and an increase in indirect loans and leases. If this trend continues, establishing and maintaining strong relationships with high quality, high volume dealerships will be very important in determining the long term success of lending institutions. Offering creative financing packages, bundling of products, and gaining a greater understanding of how automobile dealerships are run may be useful in developing these important relationships.

Automobile floorplanning offers the lender the opportunity to generate a large volume of secured loans, but also offers the opportunity to strengthen relationships with dealerships. Some interesting information from this year's survey includes the following:

- Average managerial salaries increased 10% from 1988.
- Twenty-six percent of banks consider inventory turnover in pricing.
- Almost all respondents do business with franchised dealers.
- Lenders have twice as many retail as wholesale relationships.
- Eighty-five percent of lenders use computers for processing wholesale units.
- Approximately 90% of floorplanning volume is in new cars.
- New cars remain in the floorplan an average of 78 days.
- Sixty-four percent of banks consider amount of retail paper in pricing.
- Curtailment terms vary significantly across institutions.

Footnotes

1. Automotive News Roundup, "The Year in Review," Automobile News, December 25, 1989, p. 1.

2. Charles Thomas, "1989 Profit Plunge," Automobile News, January 8, 1990, p. 1.

3. Ebit., p. 1.

4. Arlene Saunders, "1989 Car-Truck Sales Dip," Automobile News, January 8, 1990, p. 1.

5. Edward Laphan, "World Congress," Automobile News, January 15, 1990, p. 1.

6. Louise Kertesz, "Financing--The Buck Starts Here," Automobile News, January 5, 1990, p. 97.

7. Joseph Asher, "Car Loans: Still Good Business," ABA Banking Journal, June 1989, p. 60.

8. "Leasing Vs. Buying," Inc., January 1989, p. 98.

9. Dick Biggs, "Leasing Field Calied a Time Bomb," Automobile News, June 12, 1989, p. 14.

10. Charles Thomas, "Ease Industry Braces For Change," Automobile News, January 10, 1990, p. 44.

11. Paul Eisenstein, "Credit Crisis in Cut-Rate Loans," U.S. Bankers, May 1989, p. 36.

12. "Detroit's Quick Draw Credit," The Economist, February 11, 1989, p. 25.

13. Eisenstein, p. 37.

14. Louise Kertesz, "Credit Unions Fight for Lost Loan Share," Automobile News, August 7, 1989, p. 1.

15. Murray Raphel, "Five Myths About Automotive Loans," Bank Marketing, April 1989, pp. 41-42.

16. Michelle Krebs, "The Year in Dealerships," Automobile News, December 25, 1989, p. E-1.

17. Jim Henry, "Struggling N. J. Dealers Ask for Floor-Plan Help," Automobile News, January 15, 1990, p. 1.

18. Automotive News Roundup, Hot Topic: Shakeout of Dealers," Automobile News, January 30, 1989, p. 1.

19. Ebit., p. 12.

20. Charles Thomas, "Tonkin Kills Plan for $2 billion NADA Finance Company," Automobile News, January 15, 1990, p. 22.

21. Automotive News Roundup, "Hot Topic: Shakeout of Dealers," p. 216.

22. Asher, p. 65.

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CONSUMER BANKERS ASSOCIATION

CENTER FOR FINANCIAL SERVICES STUDIES
MCINTIRE SCHOOL OF COMMERCE
UNIVERSITY OF VIRGINIA

AUTOMOBILE FINANCING SURVEY

This questionnaire is an important part of an ongoing program to track trends and provide insights into what has occurred in the auto financing areas for banking over the past few years. Your personal and prompt response is appreciated. If you do not have the specific data that fit the question, please give the best and most appropriate information available.

All questions, unless otherwise stated, relate to 1989 financing activity.

The survey is in 3 sections: (1)Leasing; (2)Financing; (3)Dealer Floorplanning. The survey is color coded so that sections may be distributed to those best qualified to complete each section. Please return the completed sections in the enclosed self-addressed envelope. Questions on the survey may be directed to Antigoni Ladd, Consumer Bankers Association at (703)276-1750.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $Bill ,Mill ,Thou ,Hund .

For your participation in the completion of this questionnaire, a copy of the Executive Summary will be sent to your organization. The results of this study will be reported only in aggregate and your data will be held in confidence by the researchers at the University of Virginia. Thank you for your cooperation.

Name of Institution:_____

Address:_____
_____
_____
_____

Individual Completing This Section:_____

Telephone:_____

Please return completed surveys by **February 3, 1990** to:

Professor Timothy R. Hinkin
Center for Financial Services Studies
McIntire School of Commerce
University of Virginia
Charlottesville, VA 22903

BACKGROUND

1. What type of financial institution do you represent? (check one)

____ Holding Company (Single BHC)
____ Multi-bank Holding Company
____ Independent Bank
____ Other (specify)_____
____ Savings and Loan
____ Credit Union
____ Mutual Savings Bank

2. What is your financial institution's asset size?

$_____,_____,_____,_____

3. Financial institution's year end return on assets (ROA)? _____%

4. Financial institution's year end return on equity (ROE)? _____%

5. Which of the following best describes the current geographic distribution of your automobile financing business? (check one)

____ Single market/local (One city, county, or metro)
____ Concentrated state regional (One region of the state)
____ Diverse state regional (Several regions within a state)
____ Statewide (Many markets covering most of a state)
____ Interstate (Markets covering areas beyond state boundaries)

6. In what region does your financial institution conduct auto business? (check all that apply)

____ West (AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY)
____ Midwest (IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI, WV)
____ Northeast (CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT)
____ South (AL, AR, DC, FL, GA, LA, MS, NC, OK, SC, TN, TX, VA)

7. With respect to the data presented in this survey, how many separate operating units are represented in the following categories? (For example, if a bank offered lending services in 23 branches, it would list 1 bank, 23 branches, and 24 total.)

Number

____ Banks
____ Branches
____ Subsidiaries
____ Other (specify)_____
____ Total

8. What was your institution's total marketing budget for promotion, advertising, direct mail, etc. (exclusive of salaries)?

$_____,_____,_____,_____

9. Major changes planned in financing portfolio for the coming year:

No changes planned:

_____ Leasing program
_____ Lending program
_____ Dealer floorplanning

Planning to drop:

_____ Leasing program
_____ Lending program
_____ Dealer floorplanning

Planning to begin:

_____ Leasing program
_____ Lending program
_____ Dealer floorplanning

Planning to change from direct to indirect:

_____ Leasing program
_____ Lending program

Planning to change from indirect to direct:

_____ Leasing program
_____ Lending program

Bank/Institution: _____

Individual Completing This Section: _____

Telephone: _____

CBA AUTO FINANCING SURVEY - AS OF DECEMBER 31, 1989

SECTION I - AUTOMOBILE LEASING

The following questions relate to your automobile leasing activities as of year end. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, please give the best and most appropriate information available.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $Bill ,Mill ,Thou ,Hund .

All questions, unless otherwise stated, relate to 1989 leasing activity.

1. How long has your company been involved in automobile leasing?

   _____ Years

2. Does your institution operate a separate auto leasing department/division, or is it organized under a larger unit such as consumer/retail function?

   _____ Separate auto leasing department/division
   _____ Combined auto lending and leasing department/division
   _____ The activity is organizationally not separated, but is consolidated under a (specify)_____

3. Please describe your institution's collection activity.

   _____ Collections is a separate and independent unit.
   _____ Auto leasing has its own collections unit.
   _____ Auto leasing and lending have a combined collections unit.
   _____ Collections is consolidated under a larger unit (e.g., consumer/retail).
   _____ Other (specify) _____

4. What kinds of leasing arrangements does your institution offer?
   DIRECT--direct relationship with customer and no dealer involvement.
   INDIRECT--customer works through dealer relationship until transactions completed by dealer.

Only Direct	Only Indirect	Direct & Indirect
_____	_____	_____

5. What is your auto leasing year end return on assets (ROA)? _____ %

   What is your auto leasing year end return on equity (ROE)? _____ %

6. What was the total marketing budget for promotion, advertising, direct mail, etc. for the auto leasing department/division (exclusive of salaries)?

$_____,_____,_____,_____

7. Do you have an automated credit processing system?

____ Yes
____ No

If yes, does your credit processing system include the following? (Check all that apply):

_____ Direct computer link with dealers (not Fax)
_____ Automated credit bureau interface
_____ Credit scoring (for analyzing data)
_____ Queueing (for preference or ranking)
_____ Document preparation (for loan documents)
_____ Letter preparation (for denial/acceptance letters)
_____ Collections interface
_____ Mainframe interface

8. Have you presently automated or do you plan to automate your relationship with the dealer over the next two years?

_____ Presently automated with computer system
_____ Presently using facsimile system
_____ Plan to automate
_____ Do not plan to automate
_____ Do not know

9. From application to lease approval, what was the average processing time?

Direct	**Indirect**
_____ Less than 4 hours	_____ Less than 4 hours
_____ 4-8 hours	_____ 4-8 hours
_____ 1-2 days	_____ 1-2 days
_____ More than 2 days	_____ More than 2 days

10. What criteria are you currently using for the automobile lease approval decisions? (Check all that apply)

_____ Applicant's equity (Most common ratio? _____)
_____ Applicant's ability to repay
_____ Judgmental
_____ Current/Past credit history
_____ Credit scoring system (based on historical profile composition)
_____ Other :_____

11. Does your institution do business with lease brokers?

____Yes _____% of Portfolio
____No

12. What type of billing method do you use?

_____ Coupon Books
_____ Monthly Billing

13. This past year how many lease applications were submitted, approved, and booked?

All Leasing	Number of Applications	Number Approved	Number Booked
Total	_____	_____	_____

14. What was the average term of new auto leases last year?

	Open end	Closed end
Direct	_____ Months	_____ Months
Indirect	_____ Months	_____ Months

15. What is the average turnover for total portfolio? (The period of time from lease inception to payoff.)

New cars _____ months
Used cars _____ months
Total _____ months

16. Is the lease acquisition fee for your institution:

_____ Flat Fee $_____
_____ Percent of acquisition cost _____%
_____ Other (specify)_____
_____ Currently have no application fee

17. The lease security deposit for your institution is:

Equal to _____ month's rent

18. Do you have a lease with capital cost disclosed?

____ Yes
____ No

19. What is the maximum amount of capitalized costs expressed as a percentage of manufacturers suggested retail price (including all fees)?

_____% Domestic autos
_____% Import autos

20. What is the average actual amount of capitalized costs expressed as a percentage of manufacturers suggested retail price (including all fees)?

_____% Domestic autos
_____% Import autos

21. What percentage of new leases booked have a capital cost reduction?

_____%

22. Do you allow fees to be capitalized?

____ Yes
____ No

If yes, which of the following fees do you allow to be capitalized?

____ License fees
____ Personal property tax
____ Registration fee
____ Sales tax
____ Warranty packages
____ Other (specify)_____

23. What insurance products are offered by the funder as part of the lease arrangement?

____ Credit life insurance
____ Lease life insurance
____ Unemployment insurance
____ Gap insurance
____ Accident and health insurance

24. What is the primary method of setting residual values on your leases?

_____ Use ALG, Black Book, Kelley, or similar publication
_____ Set own values independently
_____ Other (specify)_____

25. What percentage of your leases have residual values above guide book limits?

_____%

26. What was the average premium per lease of residual value insurance as a percentage of residual value?

_____%

27. Do you insure residual value?

____ Yes
____ No

28. Do you usually buy residual value insurance with deductibles?

____ Yes
____ No

29. How many claims were submitted last year under residual value insurance policies, and what was the average claim amount?

Number of Claims	% of Portfolio	Average Claim Amount
_____	_____%	$_____

30. How many leases and their dollar volume reached scheduled termination last year where residual value insurance has applied?

Number of Leases	% of Portfolio	Dollar Volume
_____	_____%	$_____

31. For your 60-month leases, what is the average residual value as a % of MSRP?

Vehicles with cap cost under $15,000 _____%
Vehicles with cap cost between $15,000 and $25,000 _____%
Vehicles with cap cost greater than $25,000 _____%
Overall average _____%

32. For your entire lease portfolio:

Average term of lease _____ Months

What is average residual value as % of MSRP _____%

33. What percent of leases come back and are disposed of at or above original residual value?

_____ %

34. As of year end, what were your company's outstandings for all automobile leases?

Closed-end Leases

	Outstanding # of Leases	Gross Contract Receivables	Residual Value
New Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____	$_____,_____,_____,_____

Open-end Leases

	Outstanding # of Leases	Gross Contract Receivables	Residual Value
New Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____	$_____,_____,_____,_____

35. Please indicate the number, as well as dollar volumes, of all leases made in the current year versus the previous year.

Closed-end Leases

Number of Leases Booked

	1988	1989
New Cars	# _____	# _____
Used Cars	# _____	# _____
Total	# _____	# _____

Capital Cost Amount of Leases Booked

	1988	1989
New Cars	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	$_____,_____,_____,_____	$_____,_____,_____,_____

Open-end Leases

Number of Leases Booked

	1988	1989
New Cars	# _____	# _____
Used Cars	# _____	# _____
Total	# _____	# _____

Capital Cost Amount of Leases Booked

	1988	1989
New Cars	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	$_____,_____,_____,_____	$_____,_____,_____,_____

36. From how many sources did you regularly (within the past year) buy indirect paper? (Do not include portfolios purchased from other financial institutions.)

#_____ Automobile Dealers
#_____ Independent lessors
#_____ Other sourses (specify)_____

37. What percentage of all leases terminated early?

_____%

38. What percentage of all leases reached term?

_____%

39. What is the average expense per full-term unit?

$_____

40. What percentage of new leases (current year) terminated before the first year?

_____%

41. Do you allow extensions of the existing lease contracts beyond the original terms of the lease?

___ Yes
___ No

42. For leases that reach term, the majority of leases are:

_____ Returned to the lessor
_____ Extended month-to-month
_____ Renegotiated to a new lease
_____ Converted into a new lease
_____ Paid off for cash

43. Do you allow third party assumptions of the original contract?

___ Yes If yes, what percentage were new lease contracts? _____%
___ No

44. For each category below, what is the average length of terminations?
(Please exclude repossessions in your calculations.)

_____ months--- For 12 month lease
_____ months--- For 24 month lease
_____ months--- For 36 month lease
_____ months--- For 48 month lease
_____ months--- For 60 month lease
_____ months--- Average for all leases

45. Does your company apply a termination fee on early terminations?

___ Yes If yes, what is the amount? $_____
___ No

46. Does your company apply a disposal fee at maturity?

___ Yes If yes, what is the amount? $_____
___ No

47. What is the annual allowable mileage per lease agreement?

_____ miles

48. In cents per mile, what is the charge for excess mileage?

If under _____ miles, then _____ cents per mile.

49. As of year end, how many and what percentage of your lease accounts were past due/delinquent for the categories below? What was the total dollar amount and percentage of past dues for each category?

Time Past Due	Number of Accounts	Percent of Accounts*	Total $ Amount Past Due	Percent of total Outstandings**
31-59 days	_____	_____%	$_____,_____,_____,_____	_____%
60-89 days	_____	_____%	$_____,_____,_____,_____	_____%
90 days plus	_____	_____%	$_____,_____,_____,_____	_____%

* Number of delinquencies during the year divided by the average number of accounts outstanding

** Specific net dollar delinquencies against average dollar outstandings

50. What has been the total number and percentage of accounts repossessed?
What was the total dollar volume loss, and what was the loss as a percentage of outstandings?

All Leases	Total Number	Percent of Accounts*	Total Dollar Volume Loss	Percent of Outstandings**
Closed end	_____	_____%	$_____,_____,_____,_____	_____%
Open end	_____	_____%	$_____,_____,_____,_____	_____%
Total	_____	_____%	$_____,_____,_____,_____	_____%

* Number of repossessions during the year divided by the average number of accounts outstanding

** Specific net dollar losses against average dollar outstandings

51. What is the average expense per repossessed unit?

$_____

52. What proportion of your lease contracts required repossessing?

_____%

53. Please check the following methods of redisposition of repossessed vehicles that apply to your institution. (check all that apply)

_____ Public or private auction
_____ Sales to dealer
_____ Wholesaled out
_____ Retail sale
_____ Other (specify)_____

54. Please indicate the dollar volume and percentage in loss provision and actual loss in this year for both new and used car loans.

Loss Provision

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed End	$_____,_____,_____,_____	_____%
Open End	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

Actual Loss

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed End	$_____,_____,_____,_____	_____%
Open End	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

Net Loss After Recoveries

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed End	$_____,_____,_____,_____	_____%
Open End	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

55. What was your annual percentage of gross recoveries to gross losses? ($ gross recoveries/$ gross losses)

_____%

56. What percentage of gross charge-off dollars were the result of bankruptcies?
($ bankruptcies/$ gross charge-offs)

_____%

Bank/Institution:_____

Individual Completing This Section:_____

Telephone:_____

CBA AUTO FINANCING SURVEY - AS OF DECEMBER 31, 1989

SECTION II - AUTOMOBILE FINANCING

The following questions relate to your automobile financing activities as of year end. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, please give the best and most appropriate information available.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $Bill ,Mill ,Thou ,Hund .

All questions, unless otherwise stated, relate to 1989 financing activity.

1. How long has your company been involved in automobile lending?

   _____ Years

2. Does your institution operate a separate auto lending department/division, or is it organized under a larger unit such as consumer/retail function?

   _____ Separate auto lending department/division
   _____ Combined auto lending and leasing department/division
   _____ The activity is organizationally not separated, but is consolidated under a (specify)_____

3. Please describe your institution's collection activity.

   _____ Collections is a separate and independent unit.
   _____ Auto lending has its own collections unit.
   _____ Auto leasing and lending have a combined collections unit.
   _____ Collections is consolidated under a larger unit (e.g., consumer/retail).
   _____ Other (specify) _____

4. What kinds of financing services does your institution offer?
   DIRECT--direct relationship with borrower and no dealer involvement.
   INDIRECT--borrower works through dealer relationship until transactions completed by dealer.

Only Direct	Only Indirect	Direct & Indirect
_____	_____	_____

5. What is your auto financing year end return on assets (ROA)? _____ %

   What is your auto financing year end return on equity (ROE)? _____ %

6. What was the total marketing budget for promotion, advertising, direct mail, etc. for the auto financing department/division (exclusive of salaries)?

   $_____._____._____._____

7. Do you have an automated loan application processing system?

   ____ Yes
   ____ No

   If yes, does your loan application processing system include the following? (Check all that apply):

   _____ Direct computer link with dealers (not Fax)
   _____ Automated credit bureau interface
   _____ Credit scoring (for analyzing data)
   _____ Queueing (for preference or ranking)
   _____ Document preparation (for loan documents)
   _____ Letter preparation (for denial/acceptance letters)
   _____ Collections interface
   _____ Mainframe interface
   _____ Automated pass to the loan accounting system

8. From application to loan approval, what was the average processing time?

Direct	**Indirect**
_____ Less than 4 hours	_____ Less than 4 hours
_____ 4-8 hours	_____ 4-8 hours
_____ 1-2 days	_____ 1-2 days
_____ More than 2 days	_____ More than 2 days

9. What criteria are you currently using for the automobile loan approval decisions? (Check all that apply)

   _____ Applicant's equity (Most common ratio?_____)
   _____ Applicant's ability to repay
   _____ Judgmental
   _____ Current/Past credit history
   _____ Credit scoring stystem (based on historical profile composition)
   _____ Other: _____

10. What is your company's policy regarding required amount of cash as a percentage of total selling price?

    _____% in cash

11. Do you offer different terms and conditions on loans to banking customers?

    _____ Yes
    _____ No

12. What method of financing utilizes each of the following pricing/accounting methods in lending? (check all that apply)

	Direct	Indirect
Simple Interest	_____	_____
Add-On	_____	_____
Both Simple and Add-On	_____	_____
Variable (specify)_____		

13. What is the average turnover for total portfolio? (The period of time from lease inception to payoff.)

New cars _____ months
Used cars _____ months
Total Portfolio _____ months

14. What percentage of total loans pay out early?

_____%

15. This past year how many loan applications were submitted, approved, and booked?

All Lending	Number Applications	Number Approved	Number Booked
Direct	_____	_____	_____
Indirect	_____	_____	_____
Total	_____	_____	_____

16. What is your present maximum maturity in months on auto loans?

		Maximum Maturity
Direct:	New	_____months
	Used	_____months
Indirect:	New	_____months
	Used	_____months.

17. What was the average term of new auto loans made last year?

		Average Term
Direct:	New	_____months
	Used	_____months
Indirect:	New	_____months
	Used	_____months

18. What was the average expense per full-term unit?

$_____

19. For which additional items do you offer financing in your program? (Check all that apply.)

_____ Credit life
_____ Credit disability
_____ Accident and health insurance
_____ Other(s) (specify) _____

20. Have you presently automated or do you plan to automate your relationship with the dealer over the next two years?

_____ Presently automated with computer system
_____ Presently using facsimile system
_____ Plan to automate
_____ Do not plan to automate
_____ Do not know

21. On what basis do you calculate your dealer reserve(s)?

_____ Flat fee per loan
_____ Percent of amount financed
_____ Other _____

22. How do you pay your dealer reserves?

_____ % Up front (_____% of retention)
_____ % As earned
_____ % Other _____

23. Do you charge back dealer reserves on a prepaid contract?

_____ Yes
_____ No

If yes (to question 3), up to what period of time do you charge back?

_____ Less than 3 months
_____ 3-12 months
_____ 13-24 months
_____ Full term of contract

24. Do you charge back the full amount of dealer reserves in the event of a repossession?

_____ Yes
_____ No

25. As of year end what were your company's total outstandings for all direct and indirect automobile loans?

Direct Loans----Prior Year---1988

	Number of Accounts	Gross Outstandings
New Cars	# _____	$ _____,_____,_____,_____
Used Cars	# _____	$ _____,_____,_____,_____
Total	# _____	$ _____,_____,_____,_____

Direct Loans----Current Year---1989

New Cars	# _____	$ _____,_____,_____,_____
Used Cars	# _____	$ _____,_____,_____,_____
Total	# _____	$ _____,_____,_____,_____

Indirect Loans----Prior Year---1988

	Number of Accounts	Gross Outstandings
New Cars	# _____	$ _____,_____,_____,_____
Used Cars	# _____	$ _____,_____,_____,_____
Total	# _____	$ _____,_____,_____,_____

Indirect Loans----Current Year---1989

New Cars	# _____	$ _____,_____,_____,_____
Used Cars	# _____	$ _____,_____,_____,_____
Total	# _____	$ _____,_____,_____,_____

26. Indicate the number, as well as dollar volumes, of all direct and indirect loans made in the current year versus previous year.

Direct Loans

Number of Loans

	1988	1989
New Cars	#	
Used Cars	#	
Total	#	

Gross Dollar Value

	1988	1989
New Cars	$	$
Used Cars	$	$
Total	$	$

Indirect Loans

Number of Loans

	1988	1989
New Cars	#	
Used Cars	#	
Total	#	

Gross Dollar Value

	1988	1989
New Cars	$	$
Used Cars	$	$
Total	$	$

27. Did you buy portions of your auto loan portfolio from other financial institutions (do not include dealers) in the past 12 months?

_____ Yes
_____ No

28. Did you sell portions of your auto loan portfolio to other financial institutions in the past 12 months?

_____ Yes
_____ No

29. Specifically, did your bank sell auto installment loans in any of the secondary markets in the past 12 months?

_____ Yes
_____ No

If yes, how do you place securitized assets?

_____ Private Placement
_____ Public Placement

30. As of year end, how many and what percentage of your loan accounts were past due/delinquent for the categories below? What was the total dollar amount and percentage of past dues for each category? (Please report net of reprosessions.)

Time Past Due	Number of Accounts	Percent of Accounts*	Total $ Amount Past Due	Percent of total Outstandings**
31-59 days	#_____	_____%	$_____,_____,_____,_____	_____%
60-89 days	#_____	_____%	$_____,_____,_____,_____	_____%
90 days plus	#_____	_____%	$_____,_____,_____,_____	_____%

* Number of delinquencies during the year divided by the average number of accounts outstanding

** Specific net dollar delinquencies against average dollar outstandings

31. What has been the total number and percentage of accounts repossessed? What was the total dollar volume loss, and what was the loss as a percentage of outstandings?

All Loans	Number	Percent of Accounts*	Total Dollar Volume Loss	Percent of Outstandings**
Direct:				
New	#_____	_____%	$_____,_____,_____,_____	_____%
Used	#_____	_____%	$_____,_____,_____,_____	_____%
Indirect:				
New	#_____	_____%	$_____,_____,_____,_____	_____%
Used	#_____	_____%	$_____,_____,_____,_____	_____%
Total	#_____	_____%	$_____,_____,_____,_____	_____%

* Number of repossessions during the year divided by the average number of accounts outstanding

** Specific net dollar loss against average dollar outstandings

32. What is the average expense per repossessed unit?

$_____

33. At what day of delinquency are customer notices generated?

_____ 30 days past due
_____ 60 days past due
_____ 90 days past due
_____ 120 days past due
_____ Other _____

34. Does your bank attempt to renegotiate delinquent loans that would otherwise be charged off?

_____ Yes
_____ No

35. What is your normal charge-off policy for active loans and for repossessions?

Active loans (from oldest due date)	Repossessions (from date of repossession)
_____ 90 days	_____ 60 days
_____ 120 days	_____ 90 days
_____ 150 days	_____ 120 days
_____ 180 days	_____ 150 days
_____ over 180 days	_____ over 150 days

36. Which of the following methods of redisposition of repossessed vehicles does your institution employ? (Please check all that apply)

_____ Major auctions
_____ Bank auctions
_____ Sale to selling dealer
_____ Sale to wholesaler
_____ Retail sale
_____ Other (specify)_____

37. Please indicate the dollar volume and percentage in actual loss provision and net loss after recoveries in this year for both new and used car loans.

Actual Loss

All Loans	Dollar Volume	Average Net Outstanding
Direct:		
New	$_____,_____,_____,_____	_____%
Used	$_____,_____,_____,_____	_____%
Indirect:		
New	$_____,_____,_____,_____	_____%
Used	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

Net Loss After Recoveries

All Loans	Dollar Volume	Average Net Outstanding
Direct:		
New	$____,____,____,____	_____%
Used	$____,____,____,____	_____%
Indirect:		
New	$____,____,____,____	_____%
Used	$____,____,____,____	_____%
Total	$____,____,____,____	_____%

38. What was the annual recovery rate as a percent of losses?

_____%

39. What was your annual percentage of gross recoveries to gross losses? ($ gross recoveries/$ gross losses)

_____%

40. What percentage of gross charge-off dollars were the result of bankruptcies?
($ bankruptcies/$ gross charge-offs)

_____%

Bank/Institution:_____

Individual Completing This Section:_____

Telephone:_____

CBA AUTO FINANCING SURVEY - AS OF DECEMBER 31, 1989

SECTION III - WHOLESALE

The following questions relate to your automobile wholesale financing activities (i.e., floorplanning) as of December 31. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, please give the best and most appropriate information available.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $Bill ,Mill ,Thou ,Hund .

All questions, unless otherwise stated, relate to 1989 wholesale activity.

1. How many years has your company been involved in wholesale financing?

   ____ Years

2. This department is part of (check one):

   ____ Retail lending
   ____ Wholesale lending
   ____ Other, please specify_____

3. What is your wholesale finance department's return on assets (ROA)?

   _____

   What is your wholesale finance department's return on equity (ROE)?

   _____

3. Please indicate the number of full-time equivalent individuals whose work assignment is specifically directed towards the wholesale automobile financing function.

   ____ Managerial (exempt)
   ____ Administrative (non-exempt)

4. Excluding benefits, what is the average annual salary of your managerial and administrative staff in the wholesale area?

Salary per managerial (exempt) person $_____/year
Salary per administrative (non-exempt) person $_____/year

5. How many dealerships (different addresses) were represented in your portfolio?

_____ Floorplanning relationships

____ Retail relationships

6. How many manufacturers were represented in your new car portfolio?

_____ Manufacturers

7. Do you use a computer for processing wholesale and fleet units?

_____Yes
_____No

8. For the past year, what were the total number of units and total dollar outstandings for automobile floorplanning?

	Number	Gross Outstandings
New Cars	_____	$___,___,___,___
Used Cars	_____	$___,___,___,___
Fleet	_____	$___,___,___,___
Lease	_____	$___,___,___,___
Other	_____	$___,___,___,___

9. For the past year, what were the average number of units and average dollar outstandings for automobile floorplanning?

	Number	Average Outstandings
New Cars	_____	$___,___,___,___
Used Cars	_____	$___,___,___,___
Fleet	_____	$___,___,___,___
Lease	_____	$___,___,___,___
Other	_____	$___,___,___,___

10. Does you company floorplan through:

a. New car franchise dealers?

____Yes Number____
____No

If yes, what were the total number of units and dollar volumes of your outstandings for the past year?

Number of Units _____

Gross Outstandings $ _____,_____,_____,_____

Average number of days a unit remains in floorplan. _____

Total number of transactions your company processes. _____

b. Used car dealers?

___Yes Number____
___No

If yes, what were the total number of units and dollar volumes of your outstandings for the past year?

Number of Units _____

Gross Outstandings $_____,_____,_____,_____

Average number of days a unit remained in floorplan. _____

Total number of transactions your company processes. _____

11. What percentage of the manufacturer's new car invoice do you floor plan?

_____%

12. What percentage of the floorplanned units as wholesale loans became retail loans with your company in the last year?

_____%

13. Which of the following do you require when financing? (check all that apply):

____ Repurchase agreement?
____ Dealer reserve agreement?
____ Manufacturers repurchase agreements?
____ Lenders indemnity insurance?
____ Lender holds MCO (manufacturer certificate of origination)?
____ Personal individual guarantee?
____ Inspection and verification of floorplanned units by in-house personnel?
____ Inspection and verification of floorplanned units by service company?
____ Other(s) (specify)_____

14. Which of the following do you offer? (check all that apply):

____ Floorplan insurance
____ Garage-keepers insurance
____ Group health insurance
____ Workman's compensation

____ Other (explain) _____

15. What percentage of dealerships use any of your insurance plans?

_____%

16. a. What was your average dealer inventory turnover? _____%

b. Is inventory turnover a factor in pricing for your wholesale dealerships?

___Yes
___No

c. Do you consider the amount of retail paper sent to you by a dealership in the development of pricing?

___Yes
___No

17. Do you use curtailment?

___ Yes, for new cars.
___ Yes, for used cars.
___ No

a. New cars: Curtailment begins after _____ months.
Used cars: Curtailment begins after _____ months.

b. New cars: After that date (above), _____% of balance must be paid each _____ month.
Used cars: After that date (above), _____% of balance must be paid each _____ month.

d. New cars: Balance must be paid off no later than _____ months.
Used cars: Balance must be paid off no later than _____ months.